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**NOTE:** The information contained in the materials and presentations at this event is provided to assist individuals with their financial management. Readers are solely responsible for the application of any information contained herein to their personal financial circumstances. The mention of any product, company, organization, or individual is meant to be incidental to the instructional materials and not a recommendation or endorsement of that specific product, process, strategy, individual, or organization or entity.



Secretary of State  
Cathy Cox

Money Matters  
Investment Education Seminar  
Know Thyself First

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# Ground Rules

- We want you to participate with us. Enjoy the evening.
- Questions, Questions, Questions!!!
- Let us know what you need.
- Share *Your* thoughts with us to help other Georgians.
  - **Please** complete the evaluation form
  - Maps to break out sessions are on back
- We will hang around.....



# Knowing yourself is the key to sound financial literacy and awareness

- Self Directed
- Use a planner/advisor
- Help assure success
- Help meet goals



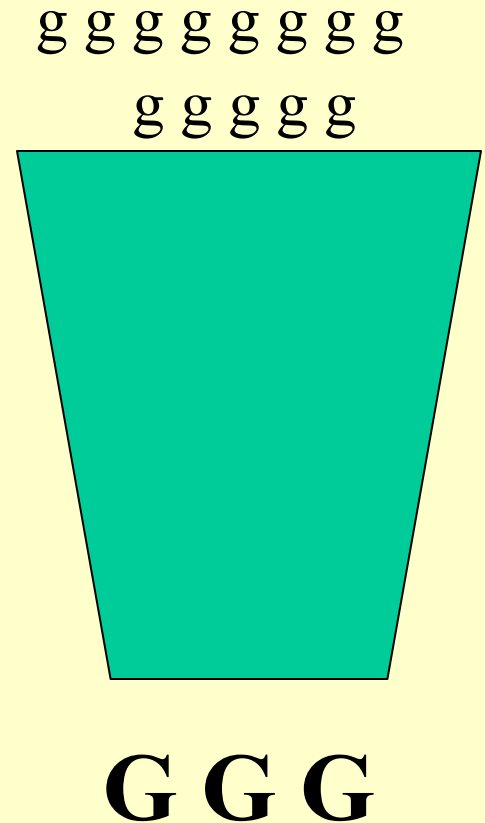
# Goals!!!

- Where do you want to be, who do you want to be in the future.
- The Future: It is where we are spending the rest of our life!!
- Those who don't plan for the future won't have one



# Goals!!!

- **Goal development should include:**
  - Full life cycle
  - Reflect values
  - Transfer/Legacy
  - Participative
  - Winnnow down (Can you really do it all?)
- **Goals should:**
  - Be plannable
  - Be attainable/realistic



# **Current Financial Structure**

## **Asset Inventory**

- **A thorough inventory and assessment of your assets:**

**Home/other real property**

**Cars/personal property**

**Savings/Checking accounts/Investment**

**Life insurance cash value**

**Retirement accounts (Vested DB/DC, IRA's)**

- **Income producing, use, liquid**



# Current Financial Structure

## Liability Inventory

- A thorough inventory and assessment of your liabilities and their cost:

Home Loans

Cars/personal property/consumer loans

Credit card balances

Business loans

- Know the cost of your liabilities

# Current Financial Structure

## Cash Flow

- A thorough inventory and assessment of your expenses:

Where do you spend your money

Look at more than one year/recurring

- Use this information to develop budget/spending plan
- Is spending consistent with your goals and values?
- What do others have to say? (FICO,Credit bureau)

# Current Financial Structure

## WHY??!!!!!!

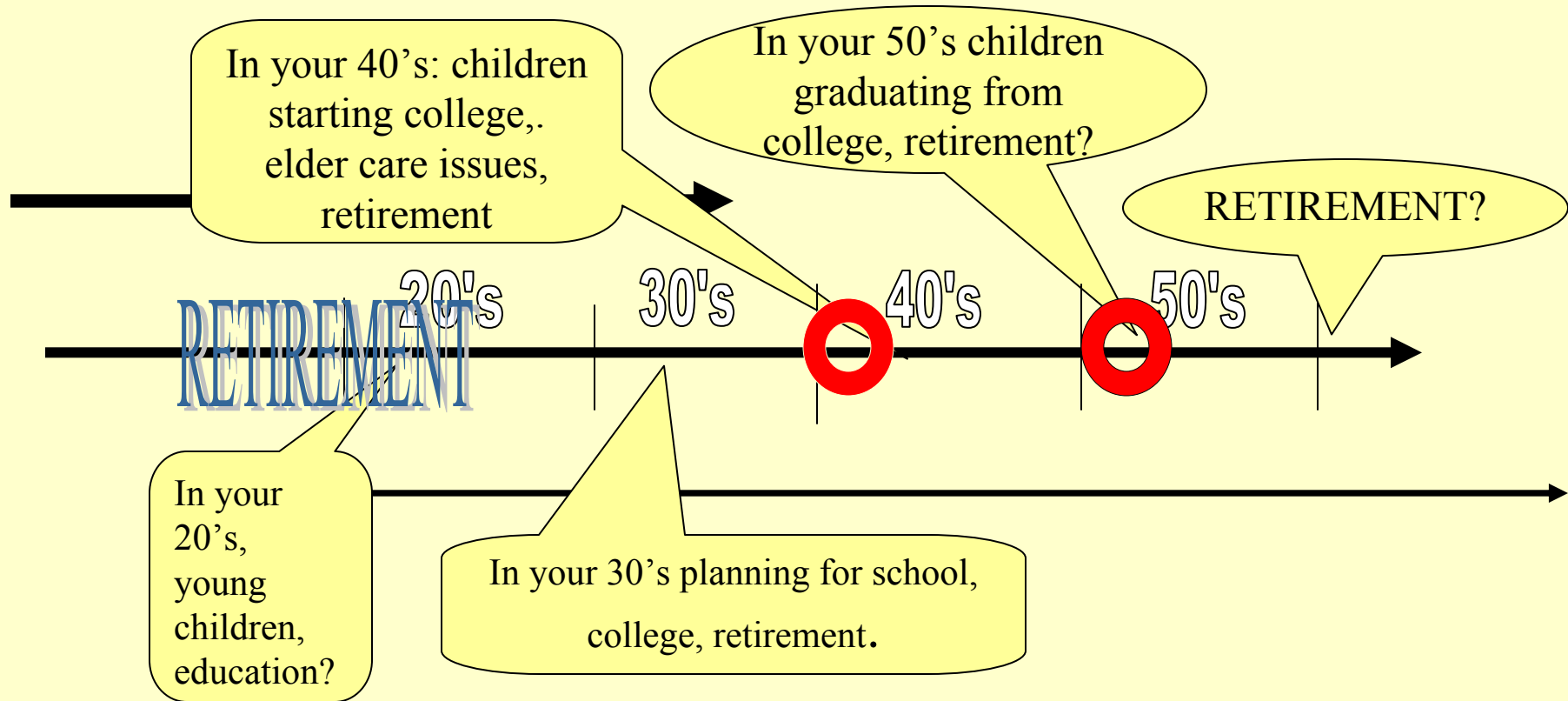
- Understanding your current situation:
  - Helps forge a successful plan for future.
  - Empower you to make most appropriate decisions on options available.
  - Will identify resources available to attack liabilities and enhance assets.
- Each asset type needs specific planning and has different risk to manage.

# How is your health?

- Health care costs highly volatile
- More costs pushed to consumer
- Chronic disease, impairment
- What is your life expectancy?



# Where are you in your financial life cycle?



# What are your risk tolerances?

**Different risk tolerance for differing components of assets.**

**Risk tolerances for your:**

- 1. Life**
- 2. Job income**
- 3. Health**
- 4. Home**
- 5. Personal Property**
- 6. Personal actions (liabilities)**
- 7. Legacy/ Estate**
- 8. Various investment accounts/Liquid Assets**

# What is your tax profile?

Tax Implications to many/most FP questions

- AGI – Adjusted Gross Income
- Income sources have differing tax characteristics
- Various deductions
- Taxable Income
- Marginal Tax Rate

# What is your tax profile?

## Federal - Marginal Tax Rates for Tax Year 2004

Taxable Income				
<b>Tax Rate</b>	<b>Married/ Joint</b>	<b>Single</b>	<b>Married/ Separate</b>	<b>Head of Household</b>
<b>10%</b>	\$0.01	\$0.01	\$0.01	\$0.01
<b>15%</b>	\$14,000	\$7,000	\$7,000	\$10,000
<b>25%</b>	\$56,800	\$28,400	\$28,400	\$38,050
<b>28%</b>	\$114,650	\$68,800	\$57,325	\$98,250
<b>33%</b>	\$174,700	\$143,500	\$87,350	\$159,100
<b>35%</b>	\$311,950	\$311,950	\$155,975	\$311,950
			Source:	CCH, Inc.



# Time Value of Money

- Money received today is worth more than in the future
- Compounding
- Inflation
- Consumer Price Index



# What is my real return?

- Factor in any account maintenance or transaction fees
- Factor in taxes
- Factor in inflation (CPI) for reduced purchasing power of money over time.



# What is my real return?

**Original investment of \$1,000. One year later investment returns to you \$1,050.**

- Account fee of 1%** **-\$10.50**
- Income Tax (Ordinary income @ MTR 15% on earnings)** **-\$ 7.50**
- State Income Tax (MTR 6%)** **-\$ 3.00**

**Account Balance** **\$1,029.00**

**Inflation (CPI of 2.0% Reduces purchasing power of investment)** **-\$20.00**

**Value of Remainder** **\$1,009.00**

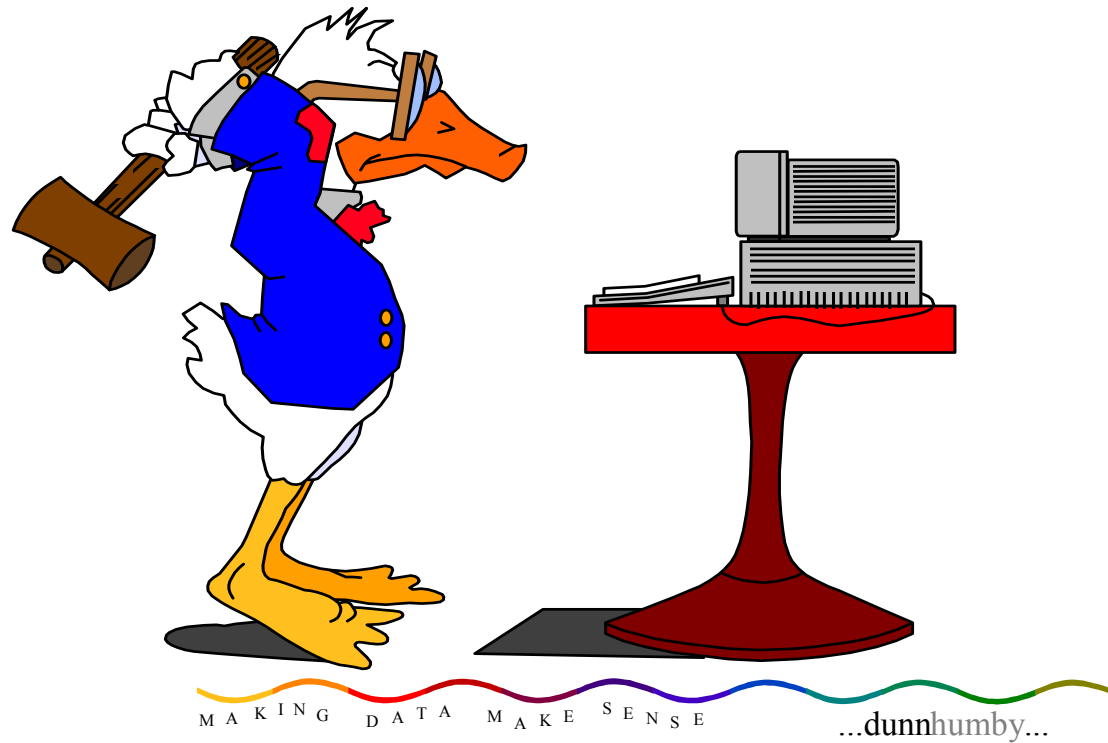
**Real Return** **1%**

# Current Financial Structure

## Challenges to Self-Direction

- Information overload
- Information consistency
- Products
- Constantly changing legal and regulatory landscape

I think I am going to “retire” you right now!!!



# 7 Important Principles for Successful Financial Planning

## •4 Planning Principles

- Spend less that you earn
- Avoid/minimum use of debt
- Build liquidity
- Set long term goals

## • 3 Decision Making Principles

- There is no such thing as an independent financial decision
- The longer term the perspective, the better the decision today
- Financial maturity is being able to give up today's desires for future benefits

# Enjoy your next session!!!

- A listing of additional resources (publications & internet sites) is available here.
- PLEASE Complete your evaluation form and turn it in
- Remember to always carefully analyze advice and apply it to YOUR situation and needs.



**Secretary of State  
Cathy Cox**

**Money Matters  
Investment Education  
Seminar**

**“The Basics of Fiscal  
Management”**



## **ABBA ASSOCIATES INC.**

William “Bill” Cheeks, President

5209 Old Mountain Court

Powder Springs, GA 30127

[www.abbaassociates.com](http://www.abbaassociates.com)

*wpc1945@aol.com*

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## **I. DEVELOP A SPENDING PLAN**

The spending plan is also known as the budget. This is where most people fail to be successful. They are getting a good education and even doing what they enjoy, but are not following good financial principles.

This area requires planning and setting goals. Most people never put together a spending plan and this is the reason their money is exhausted before the end of the week or month (depending on how often you are paid). On the following page you will find a form to use in developing your monthly spending plan.

You should separate your spending plan into these areas: INCOME, SAVINGS, FIXED EXPENSES, VARIABLE EXPENSES, FLEXIBLE EXPENSES. The savings section is separate because you should always look at paying yourself first. Guidelines for percent of income figures are: 35% for household expenses; not more than 20% for all automotive expenses; and, 10% for savings. The remaining percentage makes up the rest of your expenses.

A suggestion for developing a spending plan - gather the following items together for the past three months:

- a. mortgage or rent statements
- b. car payments
- c. utility bills
- d. credit card bills
- e. insurance statements
- f. checkbook register, receipts for groceries, gas, childcare, etc.
- g. any other relevant expenses

This is a critical part of developing a life plan roadmap.

It is important to make sure you pay yourself first. The savings rate is at an all-time low level and this is because most people do not have a spending plan. Another spending plan requirement is to have a 3-6 month *emergency savings account*. Most people do not have job security and many will lose their job. Having a 3-6 month emergency savings account will keep you from having financial challenges during an employment transition.

TO RECAP:

- Develop a spending plan
- Pay yourself first (10%)
- Manage expenses, especially credit card and installment loan debts
- Never spend more than the expenses shown for mortgage and auto expenses
- Follow this spending plan monthly

Please make copies of the spending plan on the following page, and use it monthly.

## Develop a Spending Plan to determine where your money goes:

### Sample Budget Worksheet

MONTHLY EXPENSES			
ITEM	AMOUNT	ITEM	AMOUNT
<b>Saving</b>		<b>Health Care</b>	
Saving		Physicians and Dentist	
Investment		Medical Supplies/Prescriptions	
Retirement		<b>Personal</b>	
<b>Housing</b>		Hair/Nails	
Rent/Mortgage		Toiletries	
Property Taxes (if not in mortgage)		Other	
Electricity		Entertainment	
Gas/Heating Oil		Cable	
Water & Sewer		Video/Movies/Plays/Concerts	
Telephone/Cell/On-line Services		Travel/Vacation	
Garbage/Pest Control		Sports and Hobbies, Fees	
Housekeeping Services		Newspapers/Books/Magazines	
Maintenance		Dining Out/Beverages	
<b>Food</b>		<b>Gifts &amp; Contributions</b>	
Groceries		Religious/Charities	
Lunches		Birthdays/Holidays	
Snacks/Beverages		Other	
School Lunches		<b>Family</b>	
<b>Transportation</b>		Child Support/Alimony	
Gasoline		Day Care	
Repairs, Tires, Lube		Allowance	
Bus/Metro/Parking/Tolls/Carpool		Music/Dance Lessons/Sports	
License Tags/Taxes		<b>Credit Obligations</b>	
<b>Insurance</b>		2 <sup>nd</sup> Mortgage/Home Equity Loans	
Automobile		Automobile Loans/Lease	
Home Owners/Renters		Student Loan	
Medical		Other Loan(s)	
Life and Disability		Credit Card Payments	
<b>Clothing</b>		<b>Educational</b>	
Apparel/Shoes		Tuition/Books/Supplies	
Dry Cleaning/Laundry		Other	
Total of Column One		Total of Column Two	

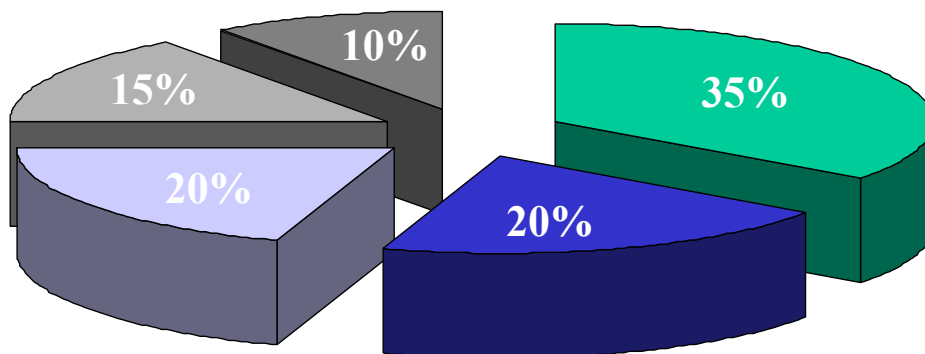
INCOME		MONTHLY NET	
First Earner			
Second Earner		Total Net Income	
Part-time			
Social Security/Pension		( - ) Expenses Column One	
Interest/Dividends		( - ) Expenses Column Two	
Rentals			
Gifts/Bonuses			
Total - Net Income		( = ) Total left for additional purchases or savings	

## SPENDING PLAN

### *What Can I Really Afford?*

Here is a guideline on what a typical breakdown of **fixed** and **variable expenses** should be. This is only a guideline. You may choose to spend a higher percentage on one item, and a lower percentage on another.

### GUIDELINES FOR A BALANCED BUDGET



**Mortgage/Rent & Utilities, Home Owners/Renters Insurance - 35%**

**Car, Gas, Insurance, Repairs - 20%**

**Food/Entertainment/Emergency Funds/Charitable - 20%**

**Credit Card/Other Loans - 15%**

**Savings - 10%**

## **II. CREDIT BASICS**

Good credit is a major factor in developing your Life Plan. In the early stages of your life, you will have minimal assets but having good credit will allow you to make certain purchases. Good credit will also help you to save. If you have poor credit, you will pay higher interest rates and higher prices for goods and services. When you pay your bills on time, thereby establishing and keeping good credit, you can comparison shop for the best prices and interest rates.

### **The 3 C's of Credit are:**

- Capacity (Your income or ability to repay a loan)
- Character (Your credit report showing how you repay bills)
- Collateral or Capital (Information on your Assets)

Protect your credit history because it is as valuable as having money early in your life.






### **BASIC CREDIT INFORMATION**

Everyone has a right to apply for the credit of his or her choice. A credit grantor cannot deny credit because of a person's sex, race, marital status, religion, national origin, age, or whether you receive public assistance. If a credit grantor denies credit for any of the above reasons, it would be in violation of the *Equal Credit Opportunity Act (ECOA)*.

There are basically three types of credit. Credit grantors decide which of the three basic types of credit they will offer. It is up to you, the consumer, to decide if their terms and/or conditions are acceptable.

<b>SHORT-TERM/OPEN</b>	<b>INSTALLMENT</b>	<b>REVOLVING</b>
No interest payments here. You set up an account, get a bill and pay by the due date. Good examples are utility accounts (phone and power) and certain charge cards like American Express (green card), Diners Club and some gas company cards.	Also known as closed-end credit, installment loans require you to pay a part, usually equal amounts, every month until you have paid the loan in full. A 5-year car loan or a 30-year mortgage would be a good example.	Here is where you test your will power. With open-end credit, you can choose to pay now or pay later - but at the very least, you need to make a minimum monthly payment of usually 2-5% of the total bill. Visa, MasterCard and department store cards are good examples.

## TYPES OF CARDS

<b><i>CHARGE CARD</i></b>	<b><i>DEBIT CARD</i></b>	<b><i>SECURED CARD</i></b>	<b><i>CREDIT CARD</i></b>	<b><i>SMART CARD /CASH CARD</i></b>
<p>Get one of these and you will have to pay your entire bill every month, plus pay interest on any late payment.</p> 	<p>Better have adequate funds now. This card takes money right out of your checking account. Insufficient funds? Oops, you have just "bounced" a check!</p> 	<p>Here is where you put up collateral – a special savings account. Though you earn interest, you cannot take out the money as long as the account is used as collateral. Miss payments, and your savings belong to the creditor.</p> <p>(\$500 Savings Account = \$500 Credit Limit)</p>  <p>\$500 Security Deposit</p>	<p>You could call it an unsecured card. You do not have to put up collateral, and you enjoy some flexibility. Pay all the monthly bill or part of it, but remember, you will pay more if you take your time.</p> 	<p>Equipped with a microchip, this new card has an up-front cost. You pay a face value, say \$50, to get this card. When you use it, the microchip deducts the purchase amount.</p> <p>After you've spent \$50 you have depleted the card. Throw it away! However, some cards allow you to <i>recharge</i> and continue to use it.</p> 

The use of credit cards costs more if the unpaid balance is not paid monthly, ties up future income and decreases future buying power, tempts one to overspend, and reduces comparison shopping if you only shop in stores extending credit.

## **BENEFITS OF CREDIT CARDS**

- Earlier consumption of goods while paying for them
- Convenience - buy it now, pay for it later
- Use for emergencies (example: had an auto accident and need immediate medical care and auto repair.)
- Establishment of good credit history (this looks favorable to lenders when making a major purchase, such as a house/ mortgage)
- Consolidation of debts - It is a smart idea to join or combine old debt, usually with a lower interest rate, and pay it off as quickly as possible

## **THE TOP 10 COSTLIEST CREDIT CARD MISTAKES ARE:**

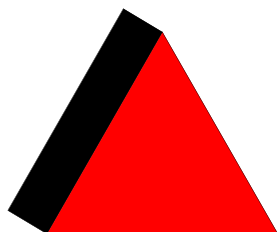
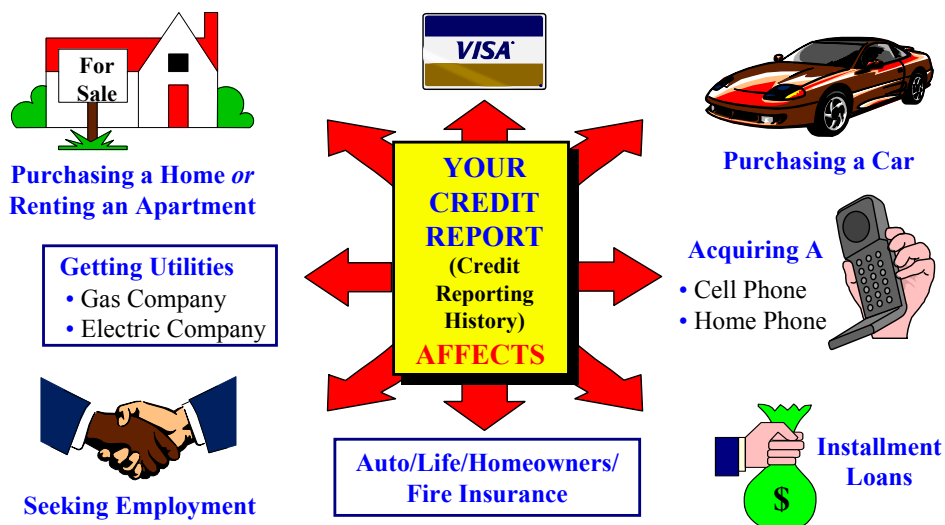
1. Overspending
2. Carrying a permanent balance
3. Making only minimum payments
4. Holding too many credit cards
5. Assuming low interest rates stay the same
6. Paying higher interest than necessary
7. Paying extra for "incentive" credit cards
8. Insisting on a no-fee card (costs may be hidden)
9. Paying off the wrong credit cards first
10. Ignoring extra fees or penalties



### III. MANAGE YOUR CREDIT REPORT

The credit report is your credit history that shows how you pay your bills. The information from your credit report is used in about every area of your life.

#### CREDIT REPORT IMPACTS



#### THE CREDIT TRIANGLE

Think of credit as a triangle. One side is you, the Consumer. Another side is the Credit Grantor. The third side is the Credit Reporting Agency (CRA).

#### THE THREE NATIONAL CREDIT REPORTING AGENCIES (CRA) ARE:

<b>EQUIFAX:</b>	1-800-685-1111	<a href="http://www.equifax.com">www.equifax.com</a>
<b>EXPERIAN:</b>	1-800-397-3742	<a href="http://www.experian.com">www.experian.com</a>
<b>TRANS UNION:</b>	1-800-888-4213	<a href="http://www.tuc.com">www.tuc.com</a>

## **YOUR CREDIT REPORT**

A credit report is your bill-paying history. The parts that make up a credit report include:

- *Personal Information* (Name, Current Address, Previous Addresses, Social Security Number, Date of Birth and Employment)
- *Public Record Information* (Liens, Bankruptcies, Judgments filed against you)
- *Collection Agency Account Information* (unpaid rent, utility bills, doctor's or hospital bills, and charged-off or written-off accounts from creditors.)
- *Credit Account Information* (Date opened/closed, highest balance or credit limit, current balance, individual or joint account, date of last activity and payment history)
- *Companies That Requested Your Credit Report*
- *Inquiries*

## **YOUR CREDIT REPORT DOES *NOT* CONTAIN YOUR:**

- Race
- Religion
- Medical Information
- Driving Record
- Criminal Record
- Political Preference
- Income, Checking or Savings Account Information

## **PERMISSIBLE PURPOSES**

Credit Reporting Agencies can only release all or part of a credit report if there are "permissible purposes", such as:

- An insurer wishing to underwrite an insurance application
- A court order
- A request from consumers for their own credit file
- A prospective employer conducting a background check, if authorized in writing by the prospective employee
- A government agency considering an application for a business license
- A business trying to decide if credit should be granted

## **HOW LONG INFORMATION REMAINS ON YOUR CREDIT REPORT**

A bankruptcy is a proceeding in federal court in which a person, who is unable to repay debts owed, may be released from their legal obligations. There are two types of bankruptcy available to most people - Chapter 7 and Chapter 13. Chapter 7, also known as “straight bankruptcy” or “liquidation,” is when a debtor’s unprotected assets are converted to cash and distributed to creditors to repay part of the debt owed. Chapter 13 affords the debtor the opportunity to repay all or part of his debts over an extended period of time. Chapter 13 is designed for consumers who need relief from their creditors and collection activity, to reorganize their debts and devise a plan to repay them. Alimony, child support and most taxes survive bankruptcy and will still be owed.

A Chapter 13 bankruptcy remains on file 7 years; a non-discharged Chapter 13 remains 10 years. A Chapter 7 bankruptcy remains on file 10 years. Unpaid tax liens remain indefinitely, while paid tax liens remain for up to 10 years from date of release. Review this information at each Credit Reporting Agency’s web site.

Credit account information for *accounts paid as agreed* remains for up to 10 years. *Accounts not paid as agreed* remain for 7 years. *Collection accounts* remain for 7 years. These time periods are measured from the date in your credit report shown in the “date of last activity” field accompanying the particular credit or collection account.

Check your credit report regularly, at least once a year. Before you decide to make a major purchase (i.e., house, car, student loan, computer, etc.), it is a good idea to obtain a copy of your credit report a couple of months before this purchase, just in case you need to resolve some issues.

You can dispute inaccurate information with the Credit Reporting Agency through a Research Request/Request for Dispute Resolution form that is always included in your requested credit report. You must complete and return the form to the CRA. Inaccurate information must be corrected or deleted by the Credit Reporting Agency, but they are not required to remove accurate data from your report unless it is outdated or cannot be verified.

You can Option Out (OPT OUT) of receiving pre-screened mailings (Credit Card Solicitation Offers) by calling the request line at **1-888-567-8688**. Calling this number allows consumers to provide opt out information to all three national credit-reporting systems with one phone call.

## **IV. CREDIT SCORING**

Credit scoring is how most credit decisions are made today. It is the scientific process where a model determines a consumer's credit risk by comparing information about one consumer to the credit performance of many others with similar credit profiles. A credit score is a statistical estimate that predicts, based upon past credit history and other factors, how likely someone is to pay back a loan. Therefore, a credit score is a snapshot of your credit risk picture at a particular point in time. Scores are not static, they change over time as one's credit and credit behavior changes over time.

Lenders use credit scores so that consumers can get loans faster, credit decisions are fairer, credit "mistakes" count for less, more credit is available, and credit rates can be lowered.

### **FIVE FACTORS OF THE GENERIC CREDIT SCORE**

1. Payment History - What is your track record? (35%)
2. Current Total Debt - How much is too much? (30%)
3. Length of Credit History - How established is yours? (15%)
4. Request for New Credit - Are you taking on more debt? (10%)
5. Types of Credit In Use - Is it a healthy mix? (10%)

There is no inherent bias in credit scoring, because only your prior credit habits are considered when calculating generic risk. The following factors are ***not*** considered when calculating a score: *Age, gender, race, sources of income, income level, marital status, national origin and religion.*

### **WHAT IS A GOOD SCORE TO GET**

- Scores range from 300 to 850, but the great majority of scores are in the 600s and 700s
- A FICO score of 750 may qualify you for a platinum credit card
- A score of 675 may indicate you're a better match for a standard credit card

### **IMPROVE YOUR SCORE**

- Pay your bills on time. Delinquent payments and collections can have a major negative impact on a score.
- Keep balances low on credit cards and other "revolving credit." High outstanding debt can affect a score.
- Apply for and open new credit accounts only as needed. Don't open accounts just to have a better credit mix -- it probably won't raise your score.
- Pay off debt rather than moving it around. Also, don't close unused cards as a short-term strategy to raise your score. Owing the same amount but having fewer open accounts may lower your score.
- Make sure the information in your credit report is correct. It won't affect your score to request and check your own credit report. If you find errors, contact the credit reporting agency and your lender.

## **V. CREDIT LAWS**

### **FAIR CREDIT REPORTING ACT (FCRA)**

The Federal Fair Credit Reporting Act (FCRA) is designed to promote accuracy, fairness and privacy of information in the files of every Credit Bureaus/Credit Reporting Agency. Specifically, the FCRA:

- Gives consumers the legal right to learn what information is in their credit report
- Major law governing credit reporting agencies and employees of the agencies
- Protects consumers' rights and businesses' ability to function
- Ensures that credit information is managed and reported fairly, promptly and accurately
- Describes who may receive a credit report (Permissible Purposes)
- Specifies how long information stays in a file
- Clarifies how to handle disputes and verifications

You can find the complete text of the Fair Credit Reporting Act at [www.ftc.gov](http://www.ftc.gov) (the Federal Trade Commission's web site).

### **EQUAL CREDIT OPPORTUNITY ACT**

- Prohibits creditors from discriminating in any way when granting credit
- Designates who is responsible for payment
- Requires credit grantors to notify consumers of specific reasons why they were denied credit
- Credit grantor must tell the consumer the name and address of the credit reporting agency which provided the credit information

### **FAIR DEBT COLLECTION PRACTICES ACT**

- Prohibits harassment and limits the circumstances under which collectors can attempt to collect payment
- Collector must provide proof of the debt or the name and address of the original creditor if the consumer disputes the debt

### **FAIR CREDIT BILLING ACT**

- Protects consumer rights related to billing errors
- Consumer has 60 days after delivery of statement to report the error in writing
- Creditor has 30 days to notify the consumer receipt of the consumer's notice
- Creditor has two (2) complete billing cycles (90 days) to resolve the error(s)
- Creditor also notifies the credit agency of the correction

### **TRUTH IN LENDING**

- Requires lenders/creditors to give you written disclosures of the cost of credit and terms of repayment before you enter a credit transaction
- If a card is lost or stolen, the consumer is liable for only the first \$50 after written notification to the credit grantor



**CATHY COX**  
**Secretary of State**  
**Commissioner of Securities**

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***Safe Investing***

**Don't Become a Victim**

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H. Wayne Howell  
Assistant Securities Commissioner

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# ***Investment Fraud – Protect Your Golden Years***

By:  
**H. Wayne Howell<sup>1</sup>**

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## **I. Introduction**

In order to be a “savvy investor”, you must first make an earnest effort to understand your personal financial situation and protect your assets that are needed to provide the basic needs of your family. You must then make a personal risk assessment to determine the investment resources that you have available and prepare a long-range plan for your financial future.

Next, you must educate yourself regarding the tools and information that are available to help you carry out your plan. You should seek advice on whether you need professional assistance in making your investment decision. This assistance could come from your attorney, your accountant, a financial planner, a securities broker-dealer or other financial services professional. General information on investment fraud is available from the Georgia Secretary of State’s office, the North American Securities Administrators Association, Inc. (“NASAA”)<sup>2</sup>, the United States Securities and Exchange Commission (“SEC”) and the National Association of Securities Dealers (“NASDR”). A resource list will be included in the attached materials.

State securities regulators have heard far too many stories of scam artists who prey on unsuspecting seniors by offering “too good to be true” investment schemes. Although many of the firms and individuals behind these schemes are prosecuted, we cannot guarantee that you will not become a victim.

In order for you to avoid being a target, education and awareness are your best weapons in the fight against investment fraud. First the bad news: If you are an older investor, you are a top target for con artists. Our files are filled with tragic examples of senior investors who have been cheated out of savings, windfall insurance payments, and even the equity in their own homes.

Today, more than 85 million investors, or roughly half of all U.S. households, rely on the securities markets to plan and prepare for their financial futures. While securities markets are global, securities are sold locally by professionals who are registered or licensed in every state where they conduct business. In Georgia, that is the Division of Securities & Business Regulation (“Division”), in the Secretary of State’s office. Cathy Cox, Georgia’s Secretary of State, is the Commissioner of Securities for the State of Georgia. She stresses that we must

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<sup>1</sup> H. Wayne Howell is the Assistant Securities Commissioner and Interim Director, Securities & Business Regulation for the Georgia Secretary of State,

<sup>2</sup> NASAA is the association of state and provincial securities regulators in the United States, Canada, Puerto Rico, Guam, and Mexico. In preparing this presentation, extensive reliance was made on the many outstanding materials found on the NASAA web-site: <http://nasaa.org/nasaa>.



continue “Putting Investors First”. This is the primary role of state securities regulators. Their function is to prevent fraud and abuse at the retail point of sale.

## **II. Background On Our Financial Regulatory System**

- 1. Financial System.** Our financial system consists of institutions (banks, brokerage houses etc.) that interact with the suppliers and users of capital funds in markets to support economic activity. These institutions accept money from savers and investors and allocate those funds among competing users of the capital to produce real goods and services. There are two basic types of financial institutions, depository and non-depository. Depository institutions, such as banks, credit unions and savings associations, operate by taking deposits from consumers; these deposits are protected by federal deposit insurance. Non-depository institutions, such as insurance companies, pension funds and securities funds, issue financial instruments that holders can buy, sell and trade; the value of these instruments can vary widely and their market value is not insured.
- 2. The History of Securities Regulation.** The securities industry today is well-regulated by a partnership composed of the Securities and Exchange Commission ("SEC"), the individual states, and the self-regulatory organizations such as the National Association of Securities Dealers ("NASD"), and the various stock exchanges. Substantive securities regulation in this country began with the states. In 1911, as a result of serious frauds being perpetrated in its citizens, the nation's first Blue Sky Law was enacted in the State of Kansas with other states quickly adopting their own version of a Blue Sky Law. As a result of the 1929 stock market crash, Congress began a series of legislative efforts that now encompass the body of law known as the federal securities laws.
- 3. Efficient Use of Capital.** The goal of our financial system is to promote the efficient use of capital and the efficient flow of that capital from investors to the optimal source for those funds, so that productivity, innovation, employment and other benefits of economic growth can be realized. This can best be accomplished by enabling investors to make informed decisions about what companies are good investments and who will be able to foster all the benefits of economic growth. Investors can only make these decisions if all the relevant information is available. Thus, the transparency or readability and thoroughness of the information that a corporation releases to the public is essential to ensure an efficient market.
- 4. Innovation.** The innovation in the capital markets in the past twenty years have changed the way individuals have structure their financial lives. During the 90's, more of the personal savings of individuals, which form the bulk of the nation's financing, shifted from depository savings accounts into more speculative investments. The traditional pension vehicle, the Defined Benefit plan, where an annuity was guaranteed by an employer upon a term of service for the life of the employee, is being replaced by Defined Contribution plans where employees invest their own tax deferred funds into a variety of investment vehicles. In 1985, U. S. households owned stocks that formed 55% percent of their savings, about a 1 to 1 ratio. In 2000, the ratio is 2.4 to 1 in favor of stock ownership as individuals have increased the risk in their retirement and investment strategies.

5. **Regulatory Partnership.** Securities regulation proceeds from a different theory in that securities carry no government seal of approval, no risk is considered too great, and they are regulated by a partnership of state, federal and self-regulatory organizations. The overall duty of a securities regulator is to guard against the possibility that a crisis in a financial institution or market may result in a downward spiral in the financial intermediary process which may have a material impact on employment and productivity.

### III. Ten Self-Defense Tips

1. **Don't be a courtesy victim.** Con artists will not hesitate to exploit your good manners. Save your good manners for friends and family members, not strangers looking for a quick buck!
2. **Check out strangers touting strange deals.** Trusting strangers is a mistake anyone can make when it comes to their personal finances. Say "no" to any investment professional who presses you to make an immediate decision, giving you no opportunity to check out the salesperson, firm, and the investment opportunity itself. Extensive background information on investment salespeople and firms is available from the Central Registration Depository (CRD) files available from the Secretary of State's office.
3. **Always stay in charge of your money.** Beware of anyone who suggests investing your money into something you don't understand or who urges that you leave everything in his or her hands.
4. **Don't judge a book by its cover.** Successful con artists sound and look extremely professional and have the ability to make even the flimsiest investment deal sound as safe and sound as putting money in the bank. The sound of a voice, particularly on the phone, has no bearing on the soundness of an investment opportunity.
5. **Watch out for salespeople who prey on your fears.** Con artists know that you worry about either outliving your savings or seeing all of your financial resources vanish overnight as the result of a catastrophic event, such as a costly hospitalization. Fear can cloud your good judgment. An investment that is right for you will make sense because you understand it and feel comfortable with the risk involved.
6. **Don't make a tragedy worse with rash financial decisions.** The death or hospitalization of a spouse has many sad consequences - financial fraud shouldn't be one of them. Ask a con artist to describe his ideal victim and you are likely to hear the following two words: "elderly widow." If you find yourself suddenly in charge of your own finances, get the facts before you make any decisions. Local libraries and universities may offer classes and information on investing. Talk to friends, family, trade organizations and our office for advice on locating a financial professional and checking their background. An insurance settlement may help with expenses but it also makes you an ideal target for fraud. Arm yourself with information and your confidence will send con men running.

7. **Monitor your investments and ask tough questions.** Don't compound the mistake of trusting an unscrupulous investment professional or outright con artist by failing to keep an eye on the progress of your investment. Insist on regular written reports. Look for signs of excessive or unauthorized trading of your funds. Don't let a false sense of friendship or trust keep you from demanding a routine statement of your accounts.
8. **Look for trouble retrieving your principal or cashing out profits.** If a stockbroker, financial planner or other individual with whom you have invested stalls you when you want to pull out your principal or profits, you have uncovered someone who wants to cheat you. Some kinds of investments have certain periods when you cannot withdraw your funds, but you must be made aware of these kinds of restrictions before you invest.
9. **Don't let embarrassment or fear keep you from reporting investment fraud or abuse.** Con artists know that you might hesitate to report that you have been victimized in financial schemes out of embarrassment or fear. Con artists prey on your sensitivities and, in fact, count on these fears preventing or delaying the point at which authorities are notified of a scam. Every day that you delay reporting fraud or abuse is one more day that the con artist is spending your money and finding new victims.
10. **Beware of "reload" scams.** If you are already the victim of an investment scam, don't compound the damage by letting con artists "reload" and take a "second bite" of your assets. Con artists know you have a finite amount of money. Faced with a loss of funds, some seniors who have been victimized once will go along with another scheme in which the con artists promise to make good on the original funds lost ... and possibly even generate new returns beyond those originally promised. Though the desire to make up lost financial ground is understandable, all too often the result is that you lose whatever savings you had left in the wake of the initial scam.

#### **IV. Investor Bill Of Rights**

1. Ask for and receive information from a firm about the work history and background of the person handling your account, as well as information about the firm itself.
2. Receive complete information about the risks, obligations, and costs of any investment before investing.
3. Receive recommendations consistent with your financial needs and investment objectives.
4. Receive a copy of all completed account forms and agreements.
5. Receive account statements that are accurate and understandable.
6. Understand the terms and conditions of transactions you undertake.

7. Access your funds in a timely manner and receive information about any restrictions or limitations on access.
8. Discuss account problems with the branch manager or compliance department of the firm and receive prompt attention to and fair consideration of your concerns.
9. Receive complete information about commissions, sales charges, maintenance or service charges, transaction or redemption fees, and penalties.
10. Contact your state or provincial securities agency in order to verify the employment and disciplinary history of a securities salesperson and the salesperson's firm; find out if the investment is permitted to be sold; or file a complaint. You can find contact information for your securities regulator at the end of this document.

## **V. How To Check Out Your Stockbroker Or Brokerage Firm**

Where or to whom do you turn if you want to check up on your present or future stockbroker? If you are about to entrust some of your funds with an individual or securities firm, it is worth your while to do a background check. It may save you both money and future aggravation.

The Central Registration Depository system ("CRD") is a source you can turn to for this kind of information. The CRD is a computerized database that holds licensing and registration information on over 600,000 stockbrokers (also called registered representatives) and over 6,000 brokerage firms throughout the country. Every state securities regulator can access the CRD database.

In most cases, a stockbroker or any other person who wants to sell securities (for example, stocks, bonds, mutual funds, etc.) must be licensed or registered to do so. Also, some states may require insurance agents who sell variable annuities or variable life policies to be licensed. Therefore, these individuals' records will be maintained on the CRD.

In essence, the CRD contains your stockbroker's past. The CRD contains employment history for the past 10 years, securities examination scores, licensing or registration status, and disciplinary history.

As an investor, you can request a public report of background information on any stockbroker or brokerage firm. Depending on the state jurisdiction, this report can be obtained either free of charge or for a nominal fee. In addition to employment and examination history, the CRD report will contain the following types of disciplinary history, if applicable: final disciplinary actions (relating to securities or commodities businesses) that have been taken by federal, state, and foreign securities regulators as well as self-regulatory organizations such as the National Association of Securities Dealers Regulation, civil judgments and arbitration decisions in securities and commodities disputes involving public customers, criminal convictions or indictments against registered or licensed brokerage firms and their associated

persons, settlements of \$10,000 or more among the parties to arbitrations, civil suits, customer complaints involving securities or commodities transactions, employment terminations after allegations were made involving violations of investment-related statutes or rules, fraud, theft, or failure to supervise investment-related activities, bankruptcies filed within the last 10 years and outstanding liens and judgments, pending disciplinary actions taken by industry regulators that relate to securities or commodities business, pending arbitrations and civil proceedings involving securities or commodities transactions, and pending written complaints alleging sales practice violations and compensatory damages of \$5,000 or more.

In order to obtain a CRD report; simply call our office<sup>3</sup>. As a matter of practice, stockbrokers and brokerage firms are not advised of your request. You can access NASAA at [www.nasaa.org](http://www.nasaa.org) or the NASDR at (800) 289-9999 or visit their Internet web site at [www.nasdr.com](http://www.nasdr.com). However, the NASDR does not report certain types of information that may be available through your state securities regulator.

This information is easy to obtain and the securities regulators want you to make informed decisions prior to investing your hard-earned dollars. The vast majority of the stockbrokers and brokerage firms are honest and reputable. However, like many professions, there are those individuals and firms who are not. One phone call may save you from sending your money to a bad broker or disreputable brokerage firm.

## **VI. How To Spot A Con Artist**

Investing in securities is risky enough without worrying about whether your salesperson is out to fleece you. To be an informed investor, you must know what danger signs to look for. Some are subtle, and some are easier to spot.

1. **Con Artists Do Not Like To Be Found.** They know that being themselves hurts business. Effective con artists must disguise their true motives. Whether your first contact with the con artist is through an unsolicited telephone call or a stranger ringing your doorbell, the con artist takes great pains to look, sound and speak like you or me. Often, con artists like to blend in with others in your group whether that group be political, community (such as the local senior center), religious or other. They quickly get to know a lot of people in the group so they can count on this common bond to spread the word about their questionable investments and reel in unsuspecting investors.
2. **Con Artists Dress For Success.** Even though con artists would like you to believe that they are "just plain folk," they are smart enough to realize that this alone will not sway you to part with your money. They work very hard to come across as smooth, professional and successful. Con artists may dress like they are wealthy and work out of impressive looking offices. If your only contact is by mail, the office may bear a prestigious sounding address.

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<sup>3</sup> 2 Martin Luther King Jr. Drive, Suite 802 West Tower, Atlanta, GA 30334, (404) 656-3920 or visit the Secretary of State's web-site at [www.sos.state.ga.us](http://www.sos.state.ga.us).

Often, this is nothing more than a mail drop. Your best bet is to look behind the surface and do some serious investigating before you part with your money.

3. **Con Artists Often Push Poorly Understood Financial Products.** Today, a variety of institutions, from banks to brokerage firms to financial planners, offer a wide range of financial products. With such a confusing mix to choose from, it is no wonder that many people turn to financial advisers for guidance. Con artists know this and stand ready to assume full responsibility for your investment decisions. Don't let them! When it comes to your money, think things through for yourself after getting all the facts. Never give someone control over your purse strings just because you think you are too old, young or financially inexperienced. If you really need help, only deal with financial advisers, broker-dealers or financial institutions with a proven track record. Con artists also appeal to the dreamer in you. Many people secretly believe that Horatio Alger's rags-to-riches story can become a reality for them -- if only they get the right break. To them, investing in untested technologies and cutting edge products before anyone else does is a sure-fire way to make money. International instruments such as letters of credit supposedly issued by foreign banks may spell stability for some people. Con artists sabotage your dreams. They promise you the investment chance of a lifetime without giving you any meaningful written information on the product or the pitfalls involved
4. **Con Artists Bring Out The Worst In You.** Skilled con artists can bring out your worst traits, particularly greed, fear, and insecurity. Fear comes into play when the con artist warns you that complaining about a failed investment to the government may result in your spoiling it for others or "rocking the boat." Con artists try to make you feel inadequate if you don't believe them. In addition, con artists know how to make you believe that if you lack confidence in them, this is a personal slight to their abilities. If you find yourself making investment-related decisions based only on your emotions, watch out!
5. **Con Artists Are Fair Weather Friends.** Before you invest, con artists are very friendly. They take a personal interest in you out of the blue. They call back when they promised they would. Each time, they tell you even more good things about the investment. You may feel you're being pressured into investing. You are. Face it. Despite his or her kind words, the con artist will do anything in his or her power to make a sale. In fact, the contacts may become so repeated that you may wish that your first contact had been your last. However, once you have invested your money, contact with the con artist dwindles and then stops altogether. If you cannot get answers to your questions following your investment, this may signal danger.
6. **For Every Silver Lining, There Is A Cloud.** Every investment involves risk. But to hear the con artist explain it, the investment may be too good to be true. Trust your inner voice if you hear claims like these:
  - "I just got a hot tip from an inside source that this stock will go through the roof."
  - "The rumor on the street is that this deal is ready to take off."
  - "Your return is guaranteed. There's no way you can lose money."

- "Gotta get in on the ground floor now or you'll be left out in the cold. In fact, we'll send a messenger over tomorrow to pick up your check." (Con artists often use this device to avoid federal mail fraud charges.)
- "Where else can you earn such a large return? Not in CDs or in a savings account."
- "In just a short while, your profits will come rolling in."
- "This deal is so great, I invested in it myself."
- "If this doesn't perform as I just said, we'll refund your money - no questions asked."
- "Everyone else that invested in this did very well."
- Be especially careful if the salesperson downplays any downside or denies that risk exists. Con artists usually are not very good at answering important questions. Watch out if the salesperson becomes reluctant to provide such information as the background, educational history, and work experience of the deal's promoters, principals or general partners, information on whether your investment monies will be segregated from other funds available to the business, written information on the business' financial condition, such as a balance sheet and bank references, the prior track record of the business and its principals, the salesperson's name, where he or she is calling from, who he or she works for, his or her background and what commission or other compensation he or she will receive and the salesperson's connection with the venture and any affiliates.
- In addition, be wary if the salesperson doesn't ask you questions about your past investment experience and your ability to withstand risk. Even if the salesperson does ask a few related questions, take heed if you get the sense that he or she is merely going through the motions.

7. **Watch Out For The Man From P.O.N.Z.I (Pay-Out now, Zero Imminent).** No self-respecting con artist would actually admit that he or she was involved in a Ponzi scheme. The Ponzi scheme was named after Charles Ponzi, an Italian immigrant who, after being jailed in Canada for fraud, moved to Boston in the early part of this century. Ponzi solicited people to invest in International Postal Reply Coupons which could be redeemed for stamps. He promised them a 40 percent return in just 90 days. Ultimately, the authorities discovered that there weren't enough coupons in circulation to support Ponzi's schemes. Ponzi was imprisoned in Massachusetts and then deported to Italy. The scheme he created, however, continues to survive in many forms. In a typical Ponzi scheme, large returns are paid to initial investors out of the funds of later investors. Not only does this give the first investors confidence in the deal, but it motivates others to invest. Unfortunately, the later investors lose all or most of their money to the con artist. If you are promised high, guaranteed profits and

given no written explanation concerning the investment vehicle, the promoter's background or the risks involved, be careful. A Ponzi scheme may be at work. Ponzi operators also tend to persuade you to "roll over" your "profits" into still another investment - so your return only ends up being on paper.

8. **Steer Clear Of Pyramid Schemes.** Pyramid schemes are a variation of the Ponzi scam. Think of a pyramid. Money is collected from people on the bottom to pay off other individuals farther up the pyramid. As more people invest, new pyramid levels are created, and your position in the pyramid rises. In theory, you would be entitled to more money. Many times, you must also buy a product to join. However, unlike a true multi-level marketing plan, selling the product is less important than recruiting others to join the network. Ultimately, there comes a time when no new money flows in. When this happens, the pyramid collapses.

9. **Tips On Not Falling Prey To A Con Artist:**

- Avoiding being hurt by a con artist is as easy as doing your homework -- before you invest.
- Contact our office to see if the investment vehicle and the person selling it are registered.
- We will be able to tell you if the salesperson has a disciplinary history, that is, whether any civil, criminal or administrative proceedings have been brought against him or her.
- Contact your local Better Business Bureau to see if any complaints have been filed against the venture's promoters or principals.
- Deal only with financial advisers, broker-dealers or financial institutions having a proven track record.
- Ask for written information on the investment product and the business. Such information, including financial data on the company and the risks involved in the investment, is contained in a prospectus. Read it carefully.
- Don't take everything you hear or read at face value. Ask questions if you don't understand, and do some sleuthing for yourself. If you need help in evaluating the investment, go to someone independent whom you can trust such as an attorney or an accountant.
- Steer clear of investments touted with no downside or risk.

## **VII. Boiler Room Scams**



Many unwary investors lose billions of dollars a year to investment fraud promoted over the telephone. Self-employment scams and high-tech schemes are among investments most recently heavily promoted by phone. This NASAA tip sheet is designed to provide investors with self-defense tactics to fight off the promotion of investment scams by "boiler rooms," the high-pressure phone sales operations from which sales people call to promote abusive and fraudulent deals.

1. **High-pressure sales tactics.** Salesmen may make repeated calls and even become abusive, questioning, for example, the intelligence of anyone who would pass up such a "sure thing."
2. **Outrageous promises of extraordinarily high profit at little or no risk.** The rule is: The higher the return, the higher the risk. Listen for salesmen who claim it is possible to make extremely high (15, 20 or 30 percent) or even "guaranteed" profits without any risk of loss. Most legitimate firms will provide written materials clearly disclosing the potential for loss in an investment, as well as its short- and long-term tax implications.
3. **A demand for an immediate decision.** Boiler room salesmen want fast action before you have a chance to develop second thoughts or consult with a professional for advice. As a result, many deals will be "gone tomorrow," "sold out today" or have "just one of two remaining openings."
4. **A reluctance to provide information about the sales firm or the investment.** If a boiler room is uncovered, it may be subject to state or federal action. Therefore, some phone scam operators are not forthcoming when asked information about the sales operation and investment.
5. **Mumbo-jumbo** about "inside information" or "secret" technology. In order to close a sale, the voice on the other end of the phone may tell you that this is a "sure thing." A common claim is that celebrities, major corporations or banks will be investing shortly. Or the salesman may claim that a new geological report is coming out shortly. In other cases, the claim may be that the company is using some sort of hush-hush "black box" technology that makes it possible to process gold at a fraction of the cost paid by other firms.
6. **Delayed delivery of the product and/or profits.** This is a classic "red flag" of an investment scam. If you don't have your investment in hand or under your control in some other location, you have nothing for your money. Beware of promises involving delays of more than a few weeks for delivery of your investment.
7. **Unusual arrangements for collecting funds from investors.** Some con artists try to avoid mail fraud charges by using overnight courier services (Federal Express or Purolator, for example). Other phone scam operations go even further-sending a courier or cab to pick up the check. No matter what unusual collection method is used, the purpose is the same: Don't give customers enough time to back out of sending money.
8. **What to Do if You Are Contacted by a Phone Scammer:**

- When hounded by high-pressure tactics, hang up.
- Be wary of advertisements in newspapers and other publications which give little or no information other than a toll-free telephone number.
- Do not make an immediate decision. Get written information first about the firm, the sales person, and the investment.
- Do not part with your money until you seek out a professional (lawyer, accountant or broker) for advice.
- Avoid investments you do not understand. The greater your degree of ignorance, the greater is the chance that you will be swindled.
- Do not give out your credit card number over the phone to strangers.
- If you suspect that a phone scammer has contacted you, notify our office of the firm and the name of the salesman. Prompt action on your part may protect less wary investors.

**9. Many investments promoted over the phone are legitimate.** The wise investor will follow these simple steps in order to be able to distinguish the "good" from the "bad" in telephone solicitations.

## **VIII. Cyberspace Fraud And Abuse**

Unwary investors are in danger today of being taken for a ride on the information superhighway. State securities regulators around the U.S. are concerned about the explosion in illicit investment schemes now flourishing on commercial bulletin board services and the informal web of computer networks that make up the Internet. An estimated one hundred and sixty million individuals in the United States have access to the Internet and are being exposed to and untold number of fraudulent and abusive investment schemes, including stock manipulations, pyramid scams and Ponzi schemes.

While the experienced pioneers who explored the online frontier are aware of some of the major rip-off techniques now in use, the investment fraud problem could reach epidemic levels over the next few years as several million unsophisticated newcomers crowd onto the information superhighway. Cyberspace, as the online world is known, has the potential to educate investors and help them to become better consumers. Today, any home equipped with a computer and modem is just a few keystrokes away from a wealth of instantly accessible research data and financial news. It will be a tragedy, however, if cyberspace comes to be regarded as a lawless "Wild West" haven for investment swindlers and, as a result, is shunned by the very financial consumers who could be empowered by it.

## 1. The States take on Cyber-Schemes.

- In 1994 the Missouri Securities Division and the New Jersey Bureau of Securities announced the first regulatory actions taken in the U.S. against online investment schemes. At least three other states currently have investigations underway involving suspected investment fraud and abuse in cyberspace. Here are the highlights of these and other key developments in known or suspected abuses in the online investment world:
- According to their cease-and-desist order, a stockbroker unlicensed to do business in Missouri touted his own services and also made dubious claims for stocks not registered for sale in the state. The broker identified himself on one of the largest commercial online services in the U.S. as "A GOOD TRADER." In the online messages, the broker included his toll-free telephone number and an offer to provide more information by e-mail or regular mail. In an effort to entice customers, he made a number of dubious claims, implying in one case that Donald Trump was a major, behind-the-scenes player in a tiny cruise line with a thinly-traded stock. The Missouri action resulted in his employer, Investors Associates, withdrawing from the state of Missouri. The brokerage firm claimed to have been unaware of the suspect online promotion by the broker, who supposedly engaged in the activity after-hours from his home computer.
- Investors were told "how to make big money from your home computer" as part of the "Electronic Message" scheme promoted by a San Antonio man and at least nine other individuals scattered around the U.S., according to the New Jersey Bureau of Securities C & D Order. In what might be referred to as an "e-mail chain letter," the promoter claimed that in exchange for five dollars, investors could earn a return of \$60,000 in just three to six weeks. Participants were told to send one dollar to each of five people on an online list. Then, those who sent money were to add their own name to the list and post a message explaining the scheme on ten different computer bulletin board sites. In practice, the scheme amounted to a high-tech variation on the old pyramid scam, which is barred under federal and state laws.
- The price of the shares of stock in another Canadian company, Wye Resources, Inc., which was reported to own a Zaire diamond mine where a major strike had been made, more than tripled in price in early 1994. After extensive online hyping, the stock, which was traded over-the-counter in Canada outside of an established exchange, collapsed. Authorities stepped in and called a halt to the trading. As one online observer of this apparent "pump and dump" scheme noted: "The company's story was made to sound like the biggest get-rich-quick prospect this side of Mars, and a lot of naive investors began buying. The stock, as ALWAYS happens, went from 20 cents to \$1.40 in a matter of a month, and the hypesters were talking about how great they all were ... until the Alberta Exchange halted trading on the stock the next day, investigating the manipulation of the share price...."(Emphasis in original.)
- State securities regulators emphasize that the problem of illicit and abusive online investment schemes has the potential to spread like wildfire as the result of the increasing popularity of commercial bulletin board services and the Internet. "We are just now

starting to get complaints, and a growing number of states and other regulators are in the first stages of focusing on this latest variation on the unending theme of investment fraud and abuse," explained Iowa Superintendent of Securities Craig Goettsch. "The states recognize the high value that is placed on privacy and minimal government intrusion in cyberspace, but the reality is that investment fraud is illegal and will be combated by the states wherever it takes place. We want to make sure that online investors know that they should proceed with extreme caution when traveling the information superhighway."

## **2. The Online World: A Premier.**

- Cyberspace was once a place inhabited largely by government agencies and academics linked together through a decentralized collection of computer networks that came to be known as the "Internet." The late 1980s and early 1990s gave birth to a torrent of commercial entrants into cyberspace, with the way led by CompuServe, then Prodigy and America Online. In 2003 it is estimated that 160 million individuals have access to the Internet.. Additionally, most major companies and many smaller companies also provided local access to the Internet.
- For newcomers, cyberspace can be an enormously complicated and confusing place. But the appeal of the online world is easy to understand. Those who go online have opened up to them a dizzying array of computer bulletin boards (where messages can be posted under specific topic headings), live discussion groups (in which members have real-time "chats" through their keyboards), e-mail (the cyberspace equivalent of what is referred to as "snail mail"), information (in the form of research, newswires, and electronic versions of magazines), ways to buy goods and services (including airline tickets and office supplies), and games.

## **3. Investments Online: Not "Commercial Free".**

- Those who have never journeyed to cyberspace may be under the impression that the online world has not been "commercialized." This misunderstanding arises not only from the former "ivory tower" reputation of cyberspace, but also as a result of a few, widely publicized incidents in which commercial interests have attempted to advertise their services through indiscriminate use of e-mail messages and message-posting on multiple bulletin boards. Such individuals have been "flamed" (a sort of "hate e-mail"), with the result that some have been driven into silence or even out of cyberspace altogether.
- There is little evidence of such anti-commercial sentiments when it comes to bulletin boards and discussion groups devoted to investing topics. Commercial bulletin board services offer special areas to subscribers on a wide range of professions and other interests, ranging from the law to romance. But one of the most powerful "magnets" drawing consumers to the commercial services and the "unmoderated" world of the Internet today are the growing number of bulletin boards and discussion groups devoted to investment tips, advice, and solicitations. Many of the investment-specific messages now appearing on commercial services and the Internet openly hawk brokers, investment advisers, financial newsletters, and specific investment deals.

- Though many of the messages simply offer general stock-picking advice or mention other investment possibilities, others tout specific stocks, money-making enterprises, and service providers. Far from being free from commercialism, investment-specific bulletin boards are now littered with sales pitches, offers of details transmitted privately via e-mail and toll-free numbers. All three of the largest commercial computer bulletin board services also offer electronic trading links to major brokerage firms.

#### **4. The Rise of Online Investment Schemes.**

- Combine the circulation of the Wall Street Journal (1.8 million) and the USA Today (1.6 million) and you still fall short of the "self-publishing" reach available to someone who joins a few commercial computer bulletin board services. As one online investor has marveled: "With the online world growing quickly, we can all reach hundreds of thousands of people with a single (message) posting. With a few keystrokes, a couple of accounts, and a macro or two, I can make it appear that many people are posting on many different systems, all talking up a stock... never before has an individual been able to reach so many people, so easily, quickly, or inexpensively."
- Just as investment con artists and other fast-buck operators wasted no time in taking advantage of the mails and the telephone as means by which to fleece large numbers of unsuspecting investors, so too have swindlers started in with a vengeance to exploit cyberspace. While many of those on bulletin boards dedicated to investment topics are interested in little more than swapping ideas about specific stocks and exchanging general financial advice, there is increasing evidence that a shady group of individuals are milking the online world in order to enrich themselves in what is often a blatantly fraudulent and abusive fashion.

#### **5. Online Investment Schemes.** State securities regulators have identified the following as being among the major investment scheme problems in the online world today:

- Manipulation of obscure, thinly traded stocks. Most commercial bulletin board services allow individuals to post messages not only under an alias... but multiple aliases. Since it may be impossible for another subscriber to ascertain the true identity of the individual behind the message (or even if a series of messages are being entered by just one individual under various aliases), there is enormous potential for manipulation of little-known companies that have a small float (the number of shares available to be bought and sold). Acting alone or with accomplices, one company insider, broker, public relations executive or even just a large shareholder can leave numerous messages calculated to spark interest in an obscure stock. Once a "thread" (in this case, a series of related messages about a stock) is started, it will show up on the computer bulletin board and be readily accessible by anyone who enters the bulletin board.
- Through a combination of puffery, speculation, and breathless claims of supposedly inside information about pending announcements, product innovations, and new contracts, the schemers seek to run up the price of the stock, which starts rising as unwary

investors read of the "great opportunity" and buy shares. In response, the insiders take their shares ("bought at the low, "pre-hype" prices) and sell them into the rising market. As interest builds, dozens of messages may be posted about the stock. When the hype-fueled stock price falters, the promoters may blame unnamed short sellers. Sometimes, losses suffered by the unsuspecting are made even worse by ruthless promoters who urge victims to "dollar average" and keep buying shares, even at the falling prices. Talk of the stock then disappears from the board. Investors who are left holding the bag can do little more than post plaintive messages: "Whatever happened to Company X?" (See, "How a Typical Cyber-Scheme Works" below)

- Misconduct by phony and unlicensed brokers/investment advisors. States are concerned that brokers may be attempting to drum up new business... without the supervision of their employers and while making liberal use of illegal assurances about the potential for profit in certain investments. The problem here goes far beyond the oral comments that an aggressive broker might make to a sophisticated client, since an online message is available to be read by, not one, but hundreds of thousands of investors. Additionally, states are concerned about brokers who may try to rope in new clients without regard for the clear state interest in keeping individuals with a history of fraud and abuse outside of their borders.
- Undisclosed interests of promoters. The anonymity of cyberspace is exploited to the hilt by schemers who promote fraudulent and abusive investment schemes. In reading a bulletin board message about a stock, you have no way of knowing if the person involved is a company official, PR representative or market-making brokerage firm. Has the person hyping the stock been paid to do so and, if so, has that fact been disclosed? (In one instance, an individual running a private bulletin board disclosed there that he received compensation for his stock promotion activities, but did not make a similar disclosure when he posted messages on major commercial bulletin board services.) In some of these cases, the role of the person involved in the scheme is such that he or she is considered an "agent" of the stock issuer and, as a result, is subject to strict legal requirements about public statements, disclosure language and penalties for intentional "misrepresentations and omissions" intended to move stock prices.

## **6. How a Typical Cyber-Scheme Works.**

- "Is anyone out there following Company X?"
- "I heard that Company X is about to make a major announcement. E-mail me or call this toll-free number to get an information package."
- "I spoke to Company X `s CEO who confirmed details of next month`s big news. I`ve bought 10,000 shares. Look for share price to double in next month! Get it now!"
- "Big news is just around the corner. We hear from a friend who has visited Company X that is going to be even bigger than we thought. There`s still time to get in."

- "Short sellers are in the market! Keep the faith... This will bounce back. The smart money will use the price as an opportunity to buy more and dollar average."
- The original message in this hypothetical bulletin board "thread" might be posted by a company executive, public relations executive, market making brokerage firm or large, individual shareholder. Subsequent messages could be left by the same individual under an alias (or aliases) or by accomplices posing as unconnected outsiders. The goal would be to interest unwary investors, who then drive up the price of the stock through a surge in buying. The schemers stand to make substantial profits when they sell their cheap shares into the market. After the price collapses, talk of the company ceases and the schemers move on to hyping a new stock..

**7. Promotion of "exotic" scams.** The manipulation of the stock of publicly-traded companies and misconduct by professionals are just two types of problems that state securities agencies have detected on commercial bulletin board services and on the Internet. In hundreds of other cases, messages have been posted promoting a wide variety of highly suspect, unregistered investment deals (e.g., wireless cable television "build-out" schemes, ostrich farming, and viatical settlements), as well as flat-out rip-offs (e.g., pyramid schemes, including a number of twists on "chain e-mail letters," and Ponzi scams). These so called "exotic" securities may pose a greater threat to consumers than other cyber-schemes, since out-and-out scams often appeal to individuals who do not feel sophisticated enough to speculate in stocks. The experience of state securities regulators is that "exotics" are often just as costly to burned investors, since many schemes involve minimum investments of \$5,000 or more.

**8. Confusingly Similar.** Some of the investment fraud and abuse problems in cyberspace are indistinguishable from those that have been in circulation elsewhere for decades. But access to the online world represents an enormous advance in the ability of con artists to victimize the unwary. Even the fastest-talking boiler-room operator would be hard-pressed to make more than 150 "cold call" telemarketing pitches in one day, whereas the fast-buck swindler with access to Cyberspace can send e-mail to many thousands of individuals in less than an hour. The same con artist can then post a message that may be read in a matter of weeks by tens or even hundreds of thousands of individuals around the globe. As one veteran state securities agency official has observed about cyberspace: "In my 32 years of investigating fraud, this is by far the greatest money-making machine for scammers that I have ever seen."

**9. Protecting Yourself Against Online Investment Schemes.** What are the rules of the road for investors who decide to travel the information superhighway? Perhaps the most important thing to keep in mind is that there will never be enough "cybercops" to keep the online world free from fraud and abuse. Even though state securities agencies and other investment regulators have mounted serious efforts in recent months to spot and stop cyber-fraud, the simple truth is that there are far too many places in the online world (particularly in the almost entirely unregulated Internet) for swindlers to set up shop. Even if the several thousand people in the United States who work at the Securities and Exchange Commission (SEC), state securities agencies, National Association of

Securities Dealers (NASD), and the stock exchanges were somehow able to put aside all other tasks in a massive bid to shut down online investment scams, it is doubtful that this problem could be stamped out altogether. This does not mean that you should avoid cyberspace. Rather, it means that investors who venture into the online world should do so with caution, being mindful of the danger of fraud and abuse. The good news is that there are self-defense steps that you can take to fend off cyber-fraud:

- Don't expect to get rich quick. The online world is filled with timely and accurate information that can help you become a smarter investor. Unfortunately, it also is home to a growing amount of investment fraud and abuse. The trick here is to keep your excitement and expectations about the promise of the online world in perspective. You have to evaluate the information you get online in the same way that you would any news magazine article, television report or whispered "hot tip." A failure to exercise the caution and skepticism that is a healthy response to all unfamiliar investment opportunities could be a fatal misstep here!
- Don't assume that your online computer service polices its investment bulletin boards. Most don't. The vast majority of services take a "hands off" attitude to validating claims made in message postings. Even the ones that do minimal policing are swamped by the volume of postings, which add up to literally millions of messages each month. In the "wild and woolly" world of the Internet, just about anything goes. Nothing is in place to prevent a con artist from posting one (or dozens) of pitches for a swindle. In the unregulated environment of the Internet, often the only check on abusive messages is "flaming" by other users.
- Don't buy thinly-traded, little known stocks strictly on the basis of online hype. These are the stocks that are most susceptible to manipulation. Unlike blue chips and other stocks with substantial floats (the number of shares available to be bought and sold), the price of low-volume stocks can be moved through relatively small strategic trades. This is why online hype usually involves previously unknown securities, often for companies involved in mining or the world of high-tech. Even if a stock that is being hyped starts to move up, proceed with extreme caution, since this may just be part of the overall manipulation scheme. You could still end up holding the bag! Always take the time to do your own research using reputable resources, many of which are available online.
- Don't act on the advice of a person who hides his or her identity. Keep in mind that many computer bulletin board services allow people to use aliases and nicknames. Though this is intended to protect privacy, it also can be exploited by fast-buck artists. As a result, you may end up dealing with an undisclosed broker, investor, or company insider intent on driving up the price of a stock through false information or baseless speculation that is difficult or impossible to disprove. Don't assume that two or more people talking up a stock are actually two or more different people! Review the motives of the person sharing investment opinions and information online and take the time to search out other information on your own before making an investment decision.



- Don't get suckered by claims made about "inside information," including pending news releases, contract announcements, and products. Investment bulletin boards and discussion groups are crammed with hot tips about impending developments sure to send a stock soaring in value. Just because these tips appear in cyberspace does not mean that they are exempt from federal insider trading laws and rules. It is extremely unlikely that genuine "inside information" is going to be publicly broadcast on a investment bulletin board.
- Don't assume that just because someone says that they have checked something out that they have actually done so. Online stock hypesters make all sorts of claims about visiting companies, inspecting mining operations, and having personal conversations with company officials. Keep in mind that you may not be able to verify who is making these claims much less whether any of the information is true or the supposed research ever took place. On a related note, keep in mind that an established tactic of investment schemers is to talk up mines and factories in remote corners of the U.S. (or elsewhere around the globe) where it is impossible for you to either visit in person or get meaningful information.
- Don't forget to always be on the look-out for conflicts of interest. A growing number of those who analyze stocks online are receiving cash or stocks in exchange for making glowing comments about the companies in question. Some of these individuals prominently disclose this fact, while others make little or no mention of the fact that they are paid touts. Make sure that you always know why someone is so "high" on an investment opportunity!
- Don't forget to first make sure that an investment opportunity and the person promoting it are properly registered with your state securities agency. Laws designed to protect small investors from fraud and abuse do apply in cyberspace. A failure by an issuer or broker to follow the state requirements here is often a major "red flag" of an investment scam. Call our office if you have questions.

## **IX. Cold Calling Alert**

***The telephone rings . . .*** It happens to all of us. The telephone rings as you're sitting down to dinner, relaxing with family or friends, or putting the kids to bed. A stranger is selling something.

***. . . is there help or trouble on the line?***

It's known as "cold calling." For many businesses, including securities firms, cold calling serves as a legitimate way to reach potential customers. But sometimes serious trouble and financial losses await you at the other end of the line. Dishonest brokers may pressure you to buy a bad investment. Or the investment might be a scam. Whether the calls are annoying, abusive, or downright crooked, you can stop cold callers. The law protects you by requiring cold callers to

follow several rules. But you need to take steps to take advantage of these rules and to protect yourself.

This will explain to you about your legal rights, how to deal with cold calls, how to stop them, and how to evaluate any investment opportunity that comes your way over the telephone.

**1. Cold Callers Must Follow These Rules.** When people from the securities industry call to sell you something, they must:

- Call Only Between 8:00 a.m. and 9:00 p.m. These time restrictions do not apply if you are already a customer of the firm or you've given them permission to call you at other times. Cold callers may call you at work at any time.
- Say Who's Calling and Why.
- Cold callers must promptly tell you their name, their firm's name, address, and telephone number, and that the purpose of the call is to sell you an investment.
- Put You on Their "Do Not Call" List, If You Ask. Every securities firm must keep a "do not call" list. If you want to stop sales calls from that firm, tell the caller to put your name and telephone number on the firm's "do not call" list. If anyone from that firm calls you again, get the caller's name and telephone number, note the date and time of the call, and complain to the firm's compliance officer and our office.
- Treat You With Respect. Cold callers can't threaten, intimidate, or use obscene or profane language. They can't call you repeatedly to annoy, abuse, or harass you.
- Get Your Written Approval Before Taking Money Directly From Your Bank Accounts.

**2. Written Information.** Before investing, you should always get answers to the questions below and written information about the investment. If you do decide to buy from a cold caller, do not give your checking or savings account numbers to the broker over the phone. Brokers must get your written permission – such as your signature on a check or an authorization form – before they can take money from your checking or savings account.

**3. Tell You the Truth.** People selling securities must tell you the truth. Brokers who lie to you about any important aspect of an investment opportunity violate federal and state securities laws.

**4. What Are Signs Of Trouble?**

- Honest brokers use cold calling to find clients for the long term. They ask questions to understand your financial situation and investment goals before recommending that you buy anything. While you may find their cold calls annoying, honest brokers who follow the cold calling rules are acting within their rights.

- Dishonest brokers use cold calling to find “quick hits.” Some set up “boiler rooms” where high-pressure salespeople use banks of telephones to call as many potential investors as possible. These strangers will hound you to buy stocks in small, unknown companies that are highly risky, or sometimes, part of a scam.
- High-Pressure Sales Tactics. Aggressive cold callers speak from persuasive scripts that include retorts for your every objection. As long as you stay on the phone, they’ll keep trying to sell. And they won’t let you get a word in edgewise. A “boiler room” broker once commented that : “You’d hammer them. I always remember this one guy, I mean, I just stayed on the phone for almost an hour, and he finally bought.”
- Beware of brokers who pressure you to buy before you have a chance to think about – or investigate – the “opportunity.” A cold-calling script had:

***“Stop right there! You`re a businessman and you make decisions every day. You didn`t get where you are by being stupid . . . Let`s confirm the order now. OK?”***

- Watch out for dishonest brokers who tell you about a “once-in-a-lifetime” opportunity, especially when the caller bases the recommendation on “inside” or “confidential” information.

***“My broker said the company was in the process of buying this 100,000 watt radio station . . . The information wasn`t on the street yet, but once the information did go out, the stock was going to double or triple.” – An investor in Virginia.***

- Don’t fall for brokers who promise spectacular profits or “guaranteed” returns. If the deal sounds too good to be true, then it probably is.

***“My broker was speaking of the AIDS epidemic and how much work was going into it with the laboratories and so on. And this particular company, working so close with it . . . he said the stock would go through the roof. And he said it was absolutely a sure thing . . . It would just continue to rise. Maybe as high as \$20 or \$30 per share.” – An investor in Virginia, who lost \$70,000 while his broker made over \$15,000 in commissions.***

- Don’t deal with brokers who refuse to send you written information about the investment.

***“I asked the broker not once but three times to send me some information. Ed McMahon`s been sending you information for***

*years; he hasn't made you any money,' was his reply." – A reporter for the Washington Post*

**5. The "Three-Call" Technique.** Some cold callers wait before turning up the heat.

- In their first call – the "warm-up" – they'll try to build your trust by describing their firm's past successes and the high quality of its research. The callers might ask permission to call again if an "exciting" deal comes along, but won't pressure you to buy.

*"I am invariably told these are not sales calls!! They assure me that all they want to do is pass along some information concerning their firm and track record, and will get back to me if and when something hot comes along. When asked about such esoteric things as appropriateness, risk levels, risk tolerance, asset allocation and/or diversification, the topic is immediately changed back to their history of high returns for clients."  
-An investor in Illinois*

- In their second call – the "set-up" – they'll whet your appetite, telling you about a fabulous deal they "think" they can get you into. In their third call – the "close" – they'll urge you to "buy now? or miss out.

**6. Bait and Switch.** Dishonest brokers lure new customers by encouraging them to purchase well known, widely traded "blue chip" stocks. After you take the bait, they may pressure you to invest in small, unknown companies with little or no earnings. These stocks tend to be very risky and thinly traded, leaving more investors with losses than profits.

**7. Paying Too Much.** Although they may not say so, dishonest brokers who push you to invest in a small, unknown company often work for firms that own large amounts of the stock. Their firm may have been involved in the company's initial public offering. Or the firm may "make a market" in the stock, which means it buys and sells the stock – sometimes called a "house stock" – for its own account. If only one firm or a small group of firms makes a market in the stock, the price can be manipulated and may not reflect the true value of the company. Dishonest brokers often pump up the prices of their house stocks until they get rid of their own holdings at high prices. But when they stop promoting the stock, the price falls, and investors lose their money. If you're not careful, you may pay too much for "house stocks." Some dishonest brokers overcharge their customers by adding an undisclosed "mark-up" to the price the firm paid for the stock. Although it's illegal for brokers to charge excessive mark-ups, some dishonest brokers mark up the prices of the stocks they sell by as much as 100% or more.

**8. Finding It Hard to Sell.** Many investors find that once they buy a "house stock," they can't get what they paid for it, even if they decide to sell right away. Or they find that their brokers simply won't sell the stock at all. Some firms follow "no net sales" policies where brokers can't execute orders to sell "house stocks" unless they find a customer to buy an equal

number of shares. Other firms discourage brokers from selling “house stocks” for their customers by offering low—or no – commissions on those sales.

- 9. Returning Calls.** Dishonest brokers often refuse to take – or return – phone calls from customers who want to sell. These brokers will use high-pressure tactics to persuade you to keep the stock. Or they will simply refuse to sell it.

*“Whenever I call my broker, I am told that he is in a meeting or out of the office.” – A common investor complaint*

*“When I told my broker to sell my portfolio, he said I can’t do it . . . I can’t explain why, but what I’ll do is send you the stock and you sell it through another broker.” – An investor in New York*

- 10. Portrait of a “Boiler Room”.** The SEC and state securities regulators have investigated – and taken action against – numerous firms and brokers who use high-pressure tactics to sell securities. In a recent case, “boiler rooms” were described this way:

*The firm was operating a classic boiler room. The brokers sat “cheek by jowl” in a room the size of a basketball court. All of their desks were lined up side by side in rows. The firm held mandatory sales meetings every morning at 8:30 a.m. at which time sales techniques were demonstrated and scripts for the firm’s “house stock” . . . were distributed. Brokers were expected to follow the scripts and only give customers the information they contained. Brokers were discouraged from doing any outside research, and were told to rely on the firm’s research and representations. . . . After the morning sales meeting, brokers were expected to spend the entire day (except for a lunch break) on the telephone. The firm expected a high volume of sales, and if brokers did not stay on the phone, they were fired. . . One broker conceded that he falsely identified another salesman . . . as the firm’s research analyst, and gave a fictitious description of the purported analyst as “fat, bald, and badly dressed.” He stated that the reason for the firm’s policy of discouraging customer sales was its desire to avoid negative price pressure on house stocks, a circumstance that he did not disclose to customers. – From an opinion in a recent SEC enforcement case*

- 11. Misrepresentations and Omissions to State Material Facts.** Brokers in one boiler room defrauded investors by:

- lying about the firm’s reputation and expertise, claiming it had a “research department” that analyzed stocks when it didn’t,
- refusing to say anything negative about the stocks they pushed, including the “risk factors” discussed in the prospectus,

- making baseless price predictions, promising that certain stocks would double in price within a short time period, impersonating other salespeople at the firm, and
- discouraging customers from selling the stocks they recommended without regard to the customers' best interests.
- Knowing how boiler rooms operate, you should be extremely skeptical when considering any investment opportunity a stranger tries to sell over the phone.

## 12. What Can I Do?

- **Report Abusive Cold Callers.** When cold callers use harassing, abusive sales tactics and lie to you about investment opportunities, they violate the cold calling rules and break federal and state securities laws. Don't let them off the hook! To complain about abusive cold callers, write down the name of the caller, the name of the firm, the date and time of the call or calls, what the caller said to you, and what you said to the caller. You can send your complaint to our office or the SEC
- **Tell Bad Cold Callers Not to Call Again.** Some salespeople just don't get it. No matter how many times you've told them "no thanks," they keep calling. If you're annoyed by cold callers, stop them before they start their sales pitch. Tell the caller to put you on the firm's "do not call" list. If anyone from that firm calls you again, complain to the firm's compliance officer, the SEC, and your state's securities regulator.
- **Don't Warm Up To Bad Cold Callers.** If you can, get as much information as possible, take good notes indicating the time and date, if you have caller-id make a note of the number the person is calling from, at any time that you become uncomfortable or feel you are losing control of the conversation, end the call, HANG-UP if necessary, say I'm not interested or "no thanks".
- **Never buy an investment based simply on a telephone sales pitch.** A wise investor will always slow down, ask questions, get written information about the investment, and investigate the background of the firm and broker. Take notes so you have a record of what the broker told you, in case you have a dispute later. Before making a final decision and handing over your hard-earned money, take the time to investigate.

## 13. **Call Our Office.** If you have any interest in an opportunity from a cold-call, simply call our office and ask:

- Is the investment registered?
- Is the broker licensed to do business in my state?

- Have you received any complaints about the broker pushing the investment or the broker's firm?
- Does either have a disciplinary history?
- Have you received any complaints about the stock, the company, or the company's managers?

#### **14. Ask Your Broker These Questions:**

- Is the investment registered with the state and the SEC?
- How long has the company been in business?
- Is it making money? If so, how?
- What is its product or service?
- Have the people who are managing this company ever made money for investors in the past?
- Will you send me the latest reports that have been filed on this company? How can I get more information about this investment?
- Where does the stock trade?
- How can I get information about the stock's trading price?
- How easily can I sell?
- What price would I get if I decide to sell immediately?
- How does this match my investment objectives?
- What is the risk that I could lose the money I invest?
- What are the costs to buy, hold, and sell this investment?

#### **15. Do Your Own Research.**

- Get as much written information about the investment as you can.
- Ask for a prospectus, annual report, offering circular, and financial statements.
- Check with your local library. They may have resources that provide additional information about the company, such as lawsuits, liens, or recent credit reports.

- Compare the written information to what you've been told over the phone.
  - Be leary if you're told that no written information about the company is available. If that happens, call our office immediately.
  - Get a second opinion
  - Talk to a trusted financial advisor or your attorney.
  - Consider calling another firm for a second opinion on the opportunity.
- 16. Monitor Your Investment.** After you've invested, watch your investment closely. Make sure your broker sends you account statements and written confirmation of all trades. Read these documents carefully to make sure they are correct. Be alert for any transactions you did not authorize.
- 17. Complain Promptly.** If you have any problems, complain promptly. Contact your broker's supervisor or the firm's compliance officer. If that does not resolve the problem, complain to our office or the SEC. We welcome your letters. Often complaints from investors alert us to wrongdoing in the industry and are the first step in stopping a bad broker or firm. By complaining early, you will have a better chance of getting your money back and protecting your legal rights.

## **X. Protect Your Money From Dishonest Investment Advisers**

With more people in charge of their investment portfolios than ever before, state securities officials are warning investors of the increasing sophistication of investment advisers who steal money from unsuspecting clients. Victims include everyone from the retired couple next door, to the hot-shot young executive hoping to make a fast buck, to the doctor and his country-club friends. State securities agencies are moving aggressively to catch these swindlers and warn everyone that constant vigilance is the basic ingredient of being an investor in today's securities market.

Although most investment advisers are honest, those that are not see the burgeoning field of financial advice as a great way to line their own pockets. The danger is compounded by the average investor's desire for maximum return, the concern of retirees worried about outliving their savings, the increase in investment opportunities, and the growing number of individuals holding themselves out as qualified investment advisers nationwide.

- 1. Investment Adviser Reported Scams.** The following cases are a sample of the new type of financial scams by self-proclaimed and registered small investment advisers that state securities enforcement officials are encountering:



- Maryland-based investment adviser Joshua Fry, known widely due to his Saturday-morning radio show, induced his clients to turn over more than \$4 million by touting phony performance figures for a bogus mutual fund called the GTC Fund, which stood for "Good 'Til Canceled," that promised "maximum capital growth consistent with the preservation of capital." Fry used the money to run a typical Ponzi scheme in which early investors were paid with later victims' money. The money also supported a lavish lifestyle that included his own horse racing business and gambling junkets. Arrested in Cincinnati, he was ultimately sentenced to eight years in jail.
- In Illinois, Howard and John Bozovich were not properly registered as investment advisers. Nevertheless, this father-and-son accounting firm told its clients that it would pool investor funds and purchase various securities. Twelve investors ultimately provided \$1.7 million. Investigators from the Illinois Securities Department uncovered massive diversion of investor funds for the personal benefit of the Bozovichs. Victims included an entire church congregation where one of the Bozovichs served as treasurer. Both men were found guilty in state and federal courts. Howard was sentenced to 15 years. John received 11.
- In Virginia, registered investment adviser Robert K. Williams, owner of College Planning Services of Virginia Beach, advertised his expertise in repositioning assets for families seeking financial aid for their college-bound children. Offering fraudulent securities and trust agreements, he obtained \$293,000 from 14 Virginia investors and used the money to pay for personal and business expenses including a luxury Mercedes with the license plate IPLAN4U. One of his victims was a 19-year-old man who lost \$15,000 he had received after his father had died from cancer. Williams was convicted on one count of mail fraud, sentenced to 24 months in prison plus three years of probation, and ordered to make restitution.
- The Colorado Division of Securities reports that Murleen K. Kunzman swindled \$1.8 million from 80 individuals she recruited from her income tax preparation service. In league with her husband and son, the Greeley, Colorado woman convinced her carefully selected clients that they would receive returns higher than certificates of deposit from nine separate limited partnerships in residential mortgage loans that she offered. After pleading guilty, she was convicted of securities fraud and money laundering and sentenced to 57 months in federal prison. Her former clients lost everything they invested.
- A former pro football player with a history of being disciplined for securities violations by the New York Stock Exchange, the National Association of Securities Dealers, as well as New Hampshire and Vermont, this self-proclaimed investment adviser was arrested in September 1995 after a joint investigation by the Vermont Securities Division and the FBI. The accused allegedly ran a Ponzi scheme in which early investors were paid with money provided by later ones, then encouraged to invest ever larger sums. Residents of Vermont, New Hampshire, Massachusetts, and Florida may have been bilked out of as much as \$30 million. The accused owned several luxury homes and an airplane, was an avid golfer, and recruited many of his victims from a local country club.

- 2. Investment Adviser Firms.** All investment adviser firms in the United States -- entrusted with \$10 trillion in customer funds -- were required to register with the Securities and Exchange Commission (SEC). But as a result of the National Securities Markets Improvement Act, which was signed into law by President Clinton on October 11, 1996, the states now have primary regulatory responsibility for investment adviser firms with less than \$25 million in assets under management -- approximately 19,000 of the 25,000 investment advisers and financial planners operating nationwide.
- 3. Investment Adviser Representatives.** To date, all but four states (Colorado, Ohio, Iowa, and Wyoming) require investment adviser representatives to be licensed. Most states require investment adviser representatives to pass an examination, undergo background checks, renew their registration annually, and report changes in their businesses or addresses promptly. States also review an applicant's disciplinary history and financial stability prior to allowing the investment adviser to conduct business in a given jurisdiction. The point-of-contact sale for most people is the investment adviser representative or salesperson. Most states also protect investors by actively pursuing a program of unannounced, on-site examinations of small investment advisers and careful screening of promotional materials.
- 4. Here's What You Can Do To Protect Yourself...**
  - Investigate the investment adviser and salesperson thoroughly. First, call your state securities agency to find out if he or she is properly licensed to provide investment advice. If the individual also is licensed as a stockbroker, background information will be available through our office from the Central Registration Depository (CRD) - a computerized reference system operated jointly by the North American Securities Administrators Association (NASAA) and the National Association of Securities Dealers (NASD).
  - Is the investment opportunity registered for sale in the state in which you live? Call your state securities agency to find out. All investment opportunities must be registered or exempt. If one being recommended to you isn't registered or exempt, consider that a red warning flag to investigate further. Ask for written "disclosure" information. Review it carefully and make sure that you understand all of the risks involved. If you have questions, ask, and keep asking until you get an answer you understand. If you're pressured by a investment adviser to make a hasty decision, just say "no." After all, it is your money.
  - Always stay in charge of your money. Protect your nest egg. If the world of investments baffles you, carve out time to educate yourself. Read one or more of the many magazines devoted to personal finance on a regular basis. Once you've made an investment, carefully review your account statement. Make sure you know where your money is being held. Generally, you should receive account statements from the custodian of the securities as well as from your investment adviser. Confirm that all transactions are ones you've authorized.

- Remember that con artists are usually extremely polite. Here's how you will probably be approached: A successful swindler will deliver a professional-sounding sales pitch that makes the flimsiest investment deal sound as safe as putting money in the bank. He or she will be extremely polite, dress in expensive clothes, and may work out of impressive offices with prestigious addresses. Many troll for prospects at houses of worship, country clubs, or senior centers. Others lull investors into complacency by first providing a sound financial service, then moving in for the kill. Before turning over any of your hard-earned money, call our office and check out the salesperson.
- Keep greed in check. If the return on an investment sounds too good to be true, it probably is. A legitimate adviser should find out about your financial needs and goals, as well as the level of risk you are comfortable with, then suggest a "suitable investment." Don't allow the promise of inflated returns to cloud your judgment. Many people secretly believe that a rags-to-riches story can become a reality for them -- if only they get the right break. Con artists play upon the dreamer in all of us. Don't let them sabotage your dreams.
- Keep notes about phone conversations and meetings. It's important to keep a record of your conversations and meetings between you and your investment adviser. Con artists operate in an atmosphere of trust that persuades people there is no need to keep careful records. But don't be fooled! Be sure to jot down the date, time, and place, as well. By keeping careful notes, you won't have to rely upon your memory if your adviser tells you something down the road that just doesn't seem right. If a lawsuit or dispute does occur, careful notes will set the record straight.
- Buyer Beware! Whether due to a self-directed retirement plan, an inheritance, saving for a child's education, or other reasons, today, more Americans than ever before find themselves in charge of their financial investments. Handling those investments are some of the most important decisions anyone can make. Although the vast majority of financial advisers are trustworthy, be on the look-out for those that are not. Being an investor requires education and attentiveness. Start asking questions before it's too late.

## **XI. Get-Rich-Quick Self-Employment Scams**

***"Go broke quick!"*** That's the unfortunate truth usually learned too late by the thousands of people who fall victim every year to swindlers peddling a variety of money-making "opportunities." According to state securities regulators and the Federal Trade Commission (FTC), promises of a sure path to financial independence through work-at-home scams, pyramid schemes that assure certain income in return for an initial and sometimes recurring investment, plus a variety of other phony business opportunities and franchises are among the most prevalent tactics swindlers use to prey upon those needing supplemental income. If you are a newly "downsized" worker, suddenly in possession of a large severance package, you are also a prime target.

Con artists often locate their victims through trade shows; telephone solicitations; television, radio, and print advertisements; and now even the Internet. They tell the prospective purchaser that interest by the public or a specific market niche is very high and that the window of opportunity will soon close. These promoters pressure investors to make a quick decision and hand over their money.

Get-rich-quick self-employment scams often promise exclusive territories and money-back guarantees. Many victims are assured that they will receive marketing assistance and that income is guaranteed to exceed the purchase price of the franchise, equipment, or software. But after they have paid, too often the eager investor learns that any training they have received is useless, the equipment or software necessary to conduct their new business does not work, supposedly secure leads produce no business, there is no 24-hour "hotline" to answer their questions, and guarantees are nothing but words.

If an organization offers to pay you commissions for recruiting new distributors, watch out! Most states outlaw this practice, which is known as "pyramiding." State laws against pyramids say that a multilevel marketing plan should only pay commissions for retail sales of goods or services, not for recruiting new distributors. Many victims of these scams sell first to their friends. Plans that pay commissions for recruiting new distributors inevitably collapse when no new distributors can be recruited. When the supposed money-making opportunity goes belly up, most lose not only their money -- but also their friends.

A franchise or business opportunity may sound appealing, especially if you have limited resources or business experience. But you could lose a significant amount of money if you don't investigate a business carefully before you buy.

The following are a sample of the more than 100 cases from Operation Missed Fortune -- a joint enforcement sweep targeting get-rich-quick self-employment schemes conducted by state securities administrators, the Federal Trade Commission, and state attorneys general in early November 1996.

- 1. Ignition Interlock Service** Centers of California markets a franchise that sells a patented analyzer to measure alcohol content of the breath. The devices are installed in vehicles to monitor and record the driving habits of convicted drunk drivers and are mandated in California for everyone convicted of a second DUI offense. Estimates are that 50,000 California residents will be ordered by courts to use such devices. According to documents provided by the California Department of Corporation, the initial fee is \$25,000 for a franchise, plus an additional \$5,000 for equipment necessary to install the ignition interlock systems. The company's advertising projects revenues of \$288,648 per year for each franchisee by the third year. The documents do not disclose that competition in the industry is heavy. On November 4, 1996, Department of Corporations ordered the company to stop selling the franchises until they are properly registered. Ignition Interlock was properly registered as of March 28, 1997.
- 2. South Florida-based ComTel** has marketed public pay phone franchises through newspaper advertisements and trade shows since 1994. According to the FTC's complaint, the company

-- formerly known as Bell-Com Communications, Inc. -- sells franchises for between \$12,756 and \$41,320, depending upon the number of telephones that comprise a package. Prospective purchasers have routinely been told that they will earn between \$180 and \$250 per month per phone. The FTC's federal court complaint alleges that their phones do not generate anywhere near the guaranteed income represented by the company's ads, salespeople, promotional materials, or contract. ComTel's income this year is estimated at \$4 million. The Secretary of State has litigated several similar cases in Georgia.

3. **Creative Technologies International (CTI)** is a dissolved Georgia corporation that advertised a business opportunity in the Washington Post offering the sale of vending machine business opportunities. The advertisement stated that the company's vending machines were designed to dispense Kodak products and film. Subsequently, a sales representative from CTI told an investigator from the Maryland Securities Division that the opportunity cost \$15,600 for three machines, an initial inventory of cameras and film, and the services of a professional locator company. CTI's representative also told the investigator that the expected return per vending machine was \$9,000 per year. CTI later mailed the investigator promotional materials containing a number of color pages that prominently display the name, address, and logo of the Eastman Kodak Company. The Eastman Kodak Company is not, however, affiliated in any way with CTI. CTI never filed the required disclosure statement about its business opportunity with the Maryland Securities Division.
4. **Operation Missed Fortune.** Although most of the scams in Operation Missed Fortune were developed to trick you into handing over large amounts of money, others set their sights on smaller amounts. They are, nevertheless, just as illegal.
5. **The Global Assistance Network for Charities (GANC)** is alleged to be a fraudulent pyramid scheme. Based in Arizona, GANC promises that by joining, members will donate to worthy charities and at the same time "earn" well-over \$89,000 per month. Marketed primarily on the Internet, GANC has its own home page. According to the FTC complaint, its principals post invitations at Internet newsgroups for others to visit their home page, e-mail or telephone requests for more information, and to ask for more information through a fax-on-demand phone number. In order to join, victims pay an initial fee of \$70 and \$50 per month thereafter. Members designate in excess of ten percent of their "earnings" to charity. Yet these "earnings" are allegedly based solely on the number of people each member recruits. There is no product -- only a monthly newsletter distributed by GANC.
6. **Progressive Media**, operating out of the State of Washington, preys on college students in the U.S. and Canada by advertising in college newspapers, Rolling Stone, Entertainment Weekly, in college bookbag stuffers, and flyers. According to the federal complaint, in one version, the ads promise that for a fee of about \$50, students can enroll in a program that will land them a seasonal job paying up to \$3,000 per month on a cruise ship, in the Alaskan fishing industry, or with other employers. Free meals, free or low-cost housing, and transportation to the employment locale are also included. Students who call are told they are guaranteed the job of his or her choice or Progressive will refund their money. But, the FTC alleges, those who paid the fee allegedly received only a paperback book listing the names of companies in cruise, fishing, other industries, few or none of which employ seasonal labor.

## **XII. Business Venture – Check It Out**

- 1. Government Agencies<sup>4</sup>.** Check out the company with the Office of Consumer Affairs, the Georgia Attorney General's Office, and the Federal Trade Commission not only in the Georgia, but also in the state where the company is headquartered. These organizations can tell you if the company is registered, if necessary, and if they have any consumer complaints about the company on file.
- 2. Background of Officers and References.** Ask current owners or employees about their experiences with the company. Don't accept a list of references selected by the company as a substitute for a complete list of franchise or business opportunity owners.
- 3. Get all promises in writing.** Any promises you hear should be written into the contract you sign.
- 4. Refund Policy.** Ask for the details of the company's refund policy before you buy. Get that in writing, too.
- 5. Investigate all earnings claims.** Talk to others who have purchased the opportunity to see if their experience verifies the claims. Demand to see the company's basis for its claims in writing. Be skeptical in judging whether the claims are backed up.
- 6. Listen carefully to sales presentations.** Be wary of any opportunity that sounds too easy. The thought of "easy money" may be appealing, but success generally requires hard work.
- 7. Evasion.** Be wary of buying if company representatives either try to evade your questions -- or ignore them altogether.
- 8. Disclosure Documents.** Ask for the disclosure document if you're investing in a franchise. This document, required by law, should provide detailed information to help you compare one business to another. If the company has no disclosure document -- beware!
- 9. Professional Advice.** Ask a lawyer, accountant, or business advisor to read any disclosure documents and proposed contracts. Entering into any business opportunity generally requires a substantial investment.
- 10. Resist high pressure sales tactics.** Buying a business opportunity is a big, expensive decision. Take time to think it over.

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<sup>4</sup> The Governor's Office of Consumer Affairs handles consumer complaints. They work closely with the Office of the Attorney General involving multi-level distributions. If your business venture requires a substantial investment, and your return is primarily through the efforts of someone other than yourself, you should contact our office in order for us to review your documents to determine if your investment in the business venture would constitute an investment contract that is subject to regulation under the Georgia Securities Act of 1973.

### **XIII. Terms You Need To Know**

1. **401 (k) Investments.** Tax deferred contributions to an employer sponsored 401(K) plan that allow employees to save money for retirement.
2. **Accredited Investor.** Federal securities law defines the term accredited investor as a bank, insurance company, registered investment company, business development company, or small business investment company; an employee benefit plan; certain charitable organization, corporation, a director, executive officer, or general partner of the company selling the securities; a business in which all the equity owners are accredited investors; a person who has net worth, that exceeds \$1 million at the time of the purchase or a income exceeding \$200,000 in each of the two most recent years or joint income with a spouse exceeding \$300,000 and a reasonable expectation of the same income level in the current year; or a trust with assets in excess of \$5 million.
3. **Affiliate.** A person who directly or indirectly through one or more intermediaries controls or is controlled by or is under common control with the person specified.
4. **Affinity Fraud.** Investment scams that prey upon members of identifiable groups, such as religious or ethnic communities, the elderly, or professional groups.
5. **Attorney General.** The Honorable Thurbert Baker, Attorney General of Georgia.
6. **Beneficial Owner.** Any person who owns the securities or who enjoys benefits substantially equivalent to ownership including a spouse, minor children, certain trusts, partnerships, the person's revocable trust, of which he or she is a settlor; a trust of which he or she, his or her spouse, or his or her minor children have an aggregate vested beneficial interest of 20 percent or more in the income or the corpus; 20% ownership in a corporation or limited liability company or an ancestor, sibling, or lineal descendant of his or her who resides in the home.
7. **Branch Offices.** Satellite or remote locations of a business other than the main or corporate office.
8. **Broker.** One that acts as an agent for others, as in purchases, or sales in return for a fee or commission.
9. **Broker-Dealer.** Any person or company that buys and sells securities for itself and others.
10. **Business Opportunity.** A favorable or advantageous business circumstance or combination of circumstances.
11. **C & D Order.** Cease and Desist Order.
12. **Church Bonds.** Church Bonds are issued by churches to assist in the building or renovation of their current facilities.

13. **Churning.** Excessive trading in a brokerage account.
14. **Commissioner of Insurance.** The current insurance commissioner for the State of Georgia is John Oxendine. His office regulates the insurance industry in Georgia. You will be able to obtain records and information on insurance companies, insurance salespersons and variable annuities. He is also the State Fire Marshall.
15. **Commissioner of Securities.** The current securities commissioner for the State of Georgia is Secretary of State Cathy Cox. Her office regulates the securities industry in Georgia. You will be able to obtain records and information on securities issuers, broker dealers, investment advisers and salespersons. The Secretary of State also regulates persons holding certain professional licenses, cemeteries, charitable organizations and elections.
16. **Commissions.** A fee or percentage allowed to a sales representative or an agent for services rendered.
17. **Commodities.** An article of trade or commerce, especially an agricultural or mining product, that can be processed and resold.
18. **Consumer Affairs.** The current administrator for the Governor's Office of Consumer Affairs is John Smith. This office provides protection and oversight for consumer transactions in Georgia. They also maintain an 800 consumer hotline where you can obtain information on consumer transactions and file complaints.
19. **Control Person.** A person who, directly or indirectly, causes the direction of the management and policies of a person, whether through the ownership of voting securities, by contract, or otherwise.
20. **CRD.** The Central Registration Depository is an automated licensing system operated by the National Association of Securities Dealers in cooperation with the U.S. Securities and Exchange Commission, the various state securities regulators and the national stock exchanges. You may obtain information from the CRD on broker dealers and securities salespersons.
21. **Debt Instruments.** A written promise to repay a debt. Examples include bills, bonds, notes, CDs, commercial paper, and banker's acceptances.
22. **Department of Banking and Finance.** The regulatory agency for banks and mortgage companies.
23. **Department of Labor.** The current labor commissioner for the State of Georgia is Michael Thurmond. The Georgia Department of Labor will provide information on labor related matters, certain retirement systems and unemployment insurance coverages.



24. **Disclosure.** The providing of relevant and material information to persons being offered and sold securities.
25. **Disgorgement.** To surrender (stolen goods or money, for example) unwillingly.
26. **District Attorney.** The prosecuting officer of a judicial district.
27. **Division.** The Division of Securities & Business Regulation of the Office of Cathy Cox, the Georgia Secretary of State and Commissioner of Securities.
28. **Enforcement Action.** Notices, sanctions and prosecutions issued by an enforcement authority.
29. **Equity Investments.** Investments such as common stock, preferred stock, partnership interests, interests in limited liability companies, trust certificates, warrants, call options and certain debt instrument that is convertible into equity.
30. **Executive Officer.** The chief executive officer, the president, the principal financial officer, the principal operating officer, each vice president with responsibility involving policy-making functions of a business.
31. **Hedge Funds.** A fund that may employ a variety of techniques to enhance returns, such as both buying and shorting stocks based on a valuation mode.
32. **Indictment.** A written statement charging a party with the commission of a crime or other offense, drawn up by a prosecuting attorney and found and presented by a grand jury.
33. **Investment Adviser.** A person in the business of advising others, either directly or through publications or writings, as to the value of securities or as to the advisability of investing in, purchasing, or selling securities, or who issues or promulgates analyses or reports concerning securities.
34. **Investment Adviser Representative.** An individual who, on behalf of an investment adviser, engages in the business of advising others as to the value of securities or as to the advisability of investing in, purchasing or selling securities or who issues or promulgates analyses or reports concerning securities.
35. **Investment contracts.** An agreement, related to property or another possession acquired for future financial return or benefit, between two or more parties that is written and enforceable by law.
36. **IRA (Individual Retirement Account).** A tax-deferred retirement account for an individual that permits individuals to set aside a specified amount per year, with the earnings tax-deferred until withdrawals begin at age 59 1/2 or later (or earlier, with a 10% penalty).

- 37. Isolated Transaction.** A non-repetitive or non-successive doing of business. In the securities context, some states allow securities issuers and affiliates to engage in non-repetitive or non-successive securities business without requiring the securities to be registered.
- 38. Keogh Plan.** A tax-deferred qualified retirement plan for self-employed individuals and unincorporated businesses, also called a self-employed pension.
- 39. Material Transaction.** In the securities context, the act of transacting or conducting business in such a way that an average prudent investor ought to be informed. For instance, when a publicly registered company enters into various compensation contracts with executives of the company, the act of entering into the compensation contracts would be something that most company investors would construe to be important and, as a result, should be disclosed to the public.
- 40. Mutual Funds.** An open-ended fund operated by an investment company that raises money from shareholders and invests in a group of assets, in accordance with a stated set of objectives. Mutual funds raise money by selling shares of the fund to the public, much like any other type of company can sell stock in itself to the public. Mutual funds then take the money they receive from the sale of their shares (along with any money made from previous investments), and use it to purchase various investment vehicles, such as stocks, bonds and money market instruments. In return for the money they give to the fund when purchasing shares, shareholders receive an equity position in the fund and, in effect, in each of its underlying securities.
- 41. NASD.** The National Association of Securities Dealers, an independent self-regulatory organization sanctioned by Congress with oversight by the United States Securities and Exchange Commission.
- 42. NASDR.** National Association of Securities Dealers Regulation. An independent subsidiary of the NASD that regulates the activities of broker/dealers in the over-the-counter markets and the Nasdaq Stock Market.
- 43. Options.** An instrument that gives the owner the right to buy or sell a specified number of shares of a specified stock at a specified price within a specified period of time. A call option allows the buyer to purchase the underlying stock at any time up to the expiration date of the contract. A put option allows the buyer to sell the underlying stock at any time up to the expiration date of the contract.
- 44. Over The Counter.** Securities that are not listed and traded on an organized exchange.
- 45. Parent Company.** A company that owns enough voting stock in another firm to control management and operations by influencing or electing its board of directors; **also called a holding company.**

46. **Penny Stock.** A stock which sells for less than one dollar per share (or in some cases, less than five dollars per share). Most penny stocks have only a few million dollars in net tangible assets and have a short operating history. Penny stocks are almost always small cap stocks, but the reverse isn't necessarily true.
47. **Pink Sheets.** Daily printed listings containing quotations for thousands of over-the-counter stocks that are not listed on any of the major stock markets. These quotations are entered by dealers acting as Market Makers in the individual securities. The pink sheets are printed by the National Quotation Bureau.
48. **Policy.** A contract of insurance, describing the term, coverage, premiums and deductibles; also called an insurance policy.
49. **Ponzi Scheme.** A pyramid scheme. An illegal investment scheme in which investors are promised impossibly high returns on their investments. These are scams in which money from later investors is used to pay earlier investors. The creators of the scheme get most of the profits while those who come later are left with nothing because there are eventually an insufficient number of new investors to pay the existing ones. These scams inevitably collapse because they require exponential growth in the number of participants at each step, which is impossible. Letters or emails that encourage the recipient to send money and then pass the message along to a certain number of new targets are a type of pyramid scheme.
50. **Private Offering.** A private offering means an unregistered offering of securities that is exempt from registration under Section 4(2) or 4(6) of the federal Securities Act of 1933 (15 U.S.C. §§77d(2) and 77d(6)) or §230.506 of Regulation D.
51. **Private Placement Memorandum.** A disclosure document used in the sale of securities directly to institutional investors, such as banks, mutual funds, insurance companies, pension funds, and foundations.
52. **Promissory Note.** A document signed by a borrower promising to repay a loan under agreed-upon terms; also called a note.
53. **Prospectus.** A formal written offer to sell securities that sets forth the plan for a proposed business enterprise, or the facts concerning an existing one that an investor needs to make an informed decision.
54. **Public Offering.** The making available of a new securities issue to the public through an underwriting; **also called** an offering.
55. **Pyramid Scheme.** See also Ponzi scheme. An illegal investment scheme in which investors are promised impossibly high returns on their investments. These are scams in which money from later investors is used to pay earlier investors. The creators of the scheme get most of the profits while those who come later are left with nothing because there are eventually an insufficient number of new investors to pay the existing ones. These scams inevitably collapse because they require exponential growth in the number of participants at each step,

which is impossible. Letters or emails that encourage the recipient to send money and then pass the message along to a certain number of new targets are a type of pyramid scheme.

- 56. **Registered Representative.** The employee of an NASD member firm who gives advice on which securities to buy and sell, and who collects a percentage of the commission income he or she generates.
- 57. **Registered Securities.** Securities that have been formally submitted to federal or state securities regulators and received permission for a specific activity from the appropriate official or authority.
- 58. **Regulation D Offering.** An offer of securities pursuant to an SEC regulation that governs a private placement exemption. Regulation D securities offerings are not registered with the SEC.
- 59. **Restitution.** Monetary compensation for loss or injury.
- 60. **Roth IRA.** A type of IRA, established in the Taxpayer Relief Act of 1997, which allows taxpayers, subject to certain income limits, to save for retirement while allowing the savings to grow tax-free. Taxes are paid on contributions, but withdrawals, subject to certain rules, are not taxed at all.
- 61. **Rule.** A regulation often promulgated by a regulatory entity such as the SEC or state regulator designed to control the conduct of those to whom it applies. Rules are official and have to be followed.
- 62. **Sales Practices.** In the securities context, registered representatives and dealers are regulated by federal and state regulators as to how they may offer and sell securities. When registered representatives and dealers engage in prohibited sales practices such as recommending unsuitable securities to their clients, then such registered representatives and dealers may be sanctioned by federal and state securities regulators.
- 63. **SEC.** The federal agency created by the Securities Exchange Act of 1934 to administer that act and the Securities Act of 1933. The statutes administered by the SEC are designed to promote full public disclosure and protect the investing public against fraudulent and manipulative practices in the securities markets. Generally, most issues of securities offered in interstate commerce or through the mails must be registered with the SEC.
- 64. **Secretary of State.** Cathy Cox is Georgia's Secretary of State.
- 65. **Securities.** Investment instruments issued by a corporation, government, or other organization that offers evidence of debt or equity. The Georgia definition of security may be found at O.C.G.A. § 10-5-2(a)(26).
- 66. **SEP Plan.** A retirement program for self-employed people or owners of companies with less than 25 employees, allowing them to defer taxes on investments intended for

retirement. This plan allows employers to contribute on behalf of eligible employees, and all contributions are tax-deductible as a business expense and can be integrated with Social Security contributions. In addition, there is no minimum contribution requirement.

- 67. Subsidiary.** A company for which a majority of the voting stock is owned by a holding company.
- 68. Supervision.** Management by overseeing the performance or operation of a person or group. For instance, in Georgia, every registered representative of a dealer is required to be supervised by a designated supervisor of the dealer.
- 69. Underwriter.** An intermediary between an issuer of a security and the investing public, often times an investment bank.
- 70. Variable Annuity.** A life insurance annuity contract which provides future payments to the holder (the annuitant), usually at retirement, the size of which depends on the performance of the portfolio's securities. The oversight of variable annuity contracts and policies is vested with the Georgia Commissioner of Insurance.
- 71. Viatical Investments.** Investments in life insurance policies held by policy holders. A viatical settlement is a transaction involving the purchase of a terminally ill person's life insurance policy for a certain percentage of the policy's face value. In Georgia, a viatical investment is a security.

## XIV. Referral List

Name	Telephone	Website
Secretary of State Division of Securities and Business Regulation 2 MLK Jr. Dr., Ste. 802-W Atlanta, GA 30334	(404) 656-3920 (888) 733-7427	<a href="http://www.sos.state.ga.us">www.sos.state.ga.us</a>
Office of Consumer Affairs 2 MLK Jr. Dr., Ste. 356-E Atlanta, GA 30334	(404) 651-8600 (800) 869-1123	<a href="http://www2.state.ga.us/gaoca/">http://www2.state.ga.us/gaoca/</a>
Insurance Commissioner's Office 2 MLK Jr. Dr., 7th Floor, West Atlanta, GA 30334	(404) 656-2056 (800) 656-2298	<a href="http://www.inscomm.state.ga.us">www.inscomm.state.ga.us</a>
Department of Banking & Finance State of Georgia 2990 Brandywine Rd., Ste. 200 Atlanta, GA 30341	(770) 986-1633 (888) 986-1633	<a href="http://www.ganet.org/dbf">www.ganet.org/dbf</a>
Securities and Exchange Commission Atlanta District Office 3475 Lenox Road, N.E., Suite 1000 Atlanta, GA 30326-1232	(404) 842-7600	<a href="http://www.sec.gov">www.sec.gov</a>
United States Dept. of Labor 200 Constitution Ave., NW Washington, DC 20210	(866) 487-2365	<a href="http://www.dol.gov">www.dol.gov</a>
Department of Law (Attorney General's Office) Judicial Building 40 Capitol Square Atlanta, GA 30334	(404) 656-3300	<a href="http://www.ganet.org/ago">www.ganet.org/ago</a>
National Association of Securities Dealers (NASD) Atlanta District Office One Securities Centre, Suite 500 3490 Piedmont Road, NE Atlanta, GA 30305	(404) 239-6100	<a href="http://www.nasdr.com">www.nasdr.com</a>
NASD BrokerCheck website Investment Adviser Firm Public Disclosure website		<a href="http://pdpi.nasdr.com">http://pdpi.nasdr.com</a> <a href="http://adviserinfo.sec.gov">http://adviserinfo.sec.gov</a>

## XV. Investigate Before You Invest

The following checklist is designed as a quick reference to help investors ask the right questions before making an investment. Once your questions have been answered, contact our office.

Seller/Agent Name: \_\_\_\_\_  
Company/Business Name: \_\_\_\_\_  
Company/Business Address: \_\_\_\_\_  
Phone Number: \_\_\_\_\_  
Today's Date: \_\_\_\_\_

1. What products are you offering? (check all that apply)

<input type="checkbox"/> Annuities	<input type="checkbox"/> Securities
<input type="checkbox"/> Living Trust	<input type="checkbox"/> Estate Planning
<input type="checkbox"/> Accounting	<input type="checkbox"/> Other _____

2. Who regulates or licenses this product or service?

3. How does this product meet my investment objectives?

4. What are the risks?

5. What written information will I receive about this investment before making a decision?

<input type="checkbox"/> Prospectus	<input type="checkbox"/> Offering Memorandum
<input type="checkbox"/> Most Recent Annual Report	<input type="checkbox"/> Most Recent Quarterly or Interim Report
<input type="checkbox"/> Recent News Releases	<input type="checkbox"/> Research Reports

6. What license(s) do you hold that authorizes you to sell this product or service?

Insurance License	License No: _____
Securities License	CRD No: _____
Investment Advisor	License No: _____
State Bar License	State Bar No: _____
Accountant License	CPA No: _____
Real Estate License	DRE License No: _____
Other	Explain: _____

\_\_\_\_\_

## OUTLINE

# RETIREMENT PLANNING

**Presented by: Francis Dasher and Tommy Padgett**  
**DASHER&PADGETT**  
**FINANCIAL ADVISORS, INC.**

- I. Introduction and Purpose
  - A. Educate
  - B. Illustrate
  - C. Workbooks
- II. What Happens When You Retire?
  - A. Financially
    - a. Employment Income May Stop
    - b. Pension Income May Start
    - c. Social Security May Start
    - d. Choices to be Made
  - B. Retirement Income Expectations vs. Reality
  - C. How Long Will Your Retirement Last?
  - D. Changing From an Accumulator to a Spender
- III. Retirement Income
  - A. Social Security Retirement Benefits – How Far Will They Go?
  - B. Employment Income (Many Baby Boomers Plan to Keep Working, at least Part-Time)
    - a. Impact on Social Security
    - b. Tax Implications
- IV. Retirement Accumulations
  - A. Estimate How Long Your Savings Will Last
  - B. How Long Will a Retirement Portfolio Last?
  - C. Protect What You Already Have
  - D. Decide Which Assets to Spend First
  - E. Advantages of Tax-Deferred Growth
- V. Qualified Retirement Plans
  - A. Retirement Plan Distributions
  - B. Lump-Sum Tax Alternatives
  - C. Monthly Payment Options
  - D. Example of Retirement Income Options
  - E. Distribution Alternative Using Life Insurance
  - F. How Do You Decide?



- VI. Retirement Accumulations – Savings and Investments
  - A. Income-Producing Vehicles
    - a. Bonds
    - b. Income Mutual Funds
    - c. Dividend-Paying Stocks
    - d. Using Growth Stock Funds to Produce Income
    - e. Asset Allocation to Improve Performance and Reduce Risk
    - f. Permanent Life Insurance
    - g. Reverse Mortgage
  - B. Annuities
    - a. Why do People Buy Annuities?
    - b. What Kinds of Annuities are Available?
    - c. What Benefits do Annuities Have to Offer?
    - d. Should You Choose a Fixed or Variable Annuity?
    - e. What Benefits Can Immediate Annuities Offer?
    - f. How do Immediate Annuities Work?
    - g. Split Annuity Strategy
    - h. Is an Annuity Appropriate for You?
- VII. Putting it All Together
  - A. Case Study – the Thompsons
  - B. Creating a Plan to Fit Your Specific Situation
- VIII. Where Do You Go From Here?
  - A. Do It Yourself
  - B. Work With Other Professionals
  - C. Work With Us
  - D. Procrastinate

DASHER&PADGETT  
FINANCIAL ADVISORS, INC.  
2549 Lafayette Plaza Drive, Suite 101  
Albany, GA 31707  
(229) 883-3500 Local  
(888) 883-9303 Toll-free

[www.finadvisors.net](http://www.finadvisors.net)

# **Saving for College:**

## **Understanding 529 Plans as an Investment Option for Families**

The Georgia Higher Education Savings  
Plan

5 2 9

**Samuel Bell Jr.**

**Tuition Financing Consultant**

# Why Save For College?

- Each year of schooling produces an annual increase in earnings by 5-11%. (National Bureau of Economic Research)
- Salaries are approximately **72%** higher for college graduates than for high school graduates.
- In the past 10 years, tuition and fees have increased by more than 1.5 times the rate of inflation.
- *In today's competitive global economy, it is difficult to overestimate the value of a good education.* – Dr. Leon Dixon

# Why Save for College?

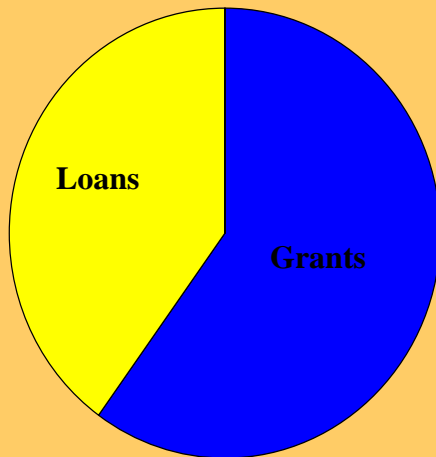
- The wage gap between high school and college graduates has continued to widen and recently has been as high as 60-70%. (NCPA, October 2002)



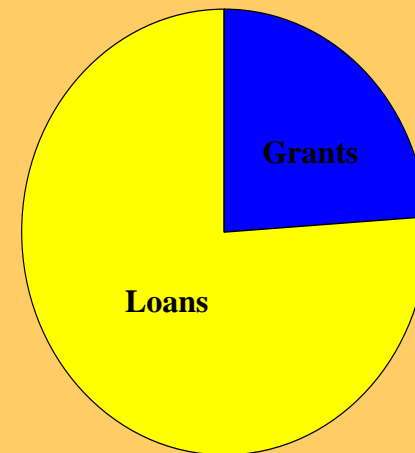
# Why Save for College?

- Financing higher education is a “shared responsibility.”

1980 - 1989



1998-2003



Unfortunately, however, we see that loans, not grants, are the fastest growing component of financial aid.

# What They Cost Now...What They May Cost in the Future

<u>Institution</u>	<u>Tuition &amp; Fees</u>	<u>Room &amp; Board</u>	<u>Books &amp; Other Expenses</u>	<u>Total Cost</u>
	\$3,616 (in-state)			\$11,124
University of Georgia	\$12,986 (out-of-state)	\$5,216	\$2,518	\$20,494
Clark Atlanta Univ.	\$12,862	\$6,370	\$4,550	\$23,782
Yale University	\$27,130	\$8,240	\$4,730	\$40,100
Emory University	\$26,957	\$8,498	\$4,826	\$40,281
Harvard College	\$27,448	\$8,502	\$4,730	\$40,680

## 2020-2024

University of Georgia	\$177,984 (in-state)	\$278,718 (out-of-state)
Clark Atlanta University	\$323,435	
Yale University	\$564,384	
Emory University	\$573,210	
Harvard College	\$582,649	

Cost apply to state residents. Does not include transportation or estimated personal expenses. Source: The College Board. Four-year costs assume an annual estimated 4% increase in tuition, fees, books, supplies, room, board and other personal expenses. Figures are for the semester beginning in fall 2001.

## QUESTION?

**If college costs increase an average of 4% each year—as they have the last 10 years—a college education at the average public institution will cost \$107,145 by the time a child born in 2002 begins school. The average private university education will soar to \$233,239.**

**WILL YOU BE READY WHEN IT'S TIME FOR YOUR CHILD TO ENTER COLLEGE?**

Source: The College Board. Projections are based on an average 4% increase in fixed college costs for the school years 1992-1993 through 2001-02.

# Challenges of Saving for College

- Unique Challenges
  - **Short accumulation period versus retirement savings**
  - **Getting a Balanced View of College Costs**
  - **Stock Market: Bull versus Bear**
  - **Help from the Government**
- Investment Alternatives
  - **What investment vehicle is right for me?**



# Investment Alternatives

- Education IRA
- UGMA/UTMA
- Savings Bonds
- Roth IRA



## So ... What is good about GHESP 529 Savings Plan Program?

### Probably the Best Way to Save for College

- Named after Section 529 of the Internal Revenue Code
- Tax-advantaged savings program specifically for higher education
- Considerable advantages compared with alternatives such as Savings Bonds, UGMAs and Coverdell ESAs (formerly E-IRAs)



*You can roll over most taxable accounts into a 529 plan*

# Investment Alternatives

Investment Vehicle	Contributions	Tax Treatment	Other Issues
<b>Education IRA</b>	\$2000 per year	Tax deferred until withdrawn. Earnings are tax exempt if used timely for qualified education expenses.	Low investment contribution. Impact financial aid calculations.
<b>UGMA/UTMA</b>	Unlimited	Based on age and amount of earnings.	Contributions are irrevocable and the child controls the assets at the state's age of majority.
<b>EE Savings Bonds</b>	Unlimited	Earnings are exempt from state and federal income taxes, subject to income limitations.	Low earnings potential.
<b>Roth IRA</b>	100% of earned income or \$2,000 whichever is less. Limit is reduced if participant contributes to traditional IRA.	Tax free withdrawals after age 59 1/2 prior withdrawals would be taken from original contributions and thus not be taxed.	Phase out at AGI between \$95,000-\$110,000 for single filers and \$150,000-\$160,000 for married filing jointly.
<b>Taxable Account</b>	Unlimited	Taxable at owner's tax rate. No favorable tax treatment for education expenses.	

# Federal Aid – How will GHESP affect my child's chance to qualify for Financial Aid?

## Prepaid Tuition Program

- ✓ Treated as a resource;
- ✓ dollar for dollar it reduces eligibility for federal aid

## GHESP 529 Savings Program

- ✓ Treated as an asset of the parent
- ✓ (not generally considered if not owned by a parent; i.e. grandparent's assets are not requested on FAFSA)

❑ U.S. Department of Education says that 529 savings plan accounts are treated as an asset of the parent or other account owner in determining eligibility for federal financial aid. This means that your expected contribution towards your child's college costs will include 5.6%, or less, of the value of your account for each academic year. NOTE: This is much better than the 35% assessment against assets owned in your child's name or in a custodial account.

# Interaction with other Federal Tax Benefits

- A 529 account doesn't preclude use of HOPE and Lifetime Learning Credits if eligible
- Contributions can be made to both a Coverdell Education Savings Account and to a GHESP 529 Savings Program in the same year on behalf of the same beneficiary without penalty



# Government Introduces a New Alternative

## **GHESP 529 College Tuition Savings Plan Basics:**

**Section 529 of the Internal Revenue Code**



**Qualified Tuition Programs (QTP)**



**Qualified Tuition Programs vary from State to State**



# Qualified Tuition Program Defined

- A Qualified Tuition Program or QTP is a program established and maintained by a State or an agency or instrumentality of a State under which a person resides —
  - **Prepaid Plan** - may purchase tuition credits or certificates on behalf of a designated beneficiary that entitles the beneficiary to the waiver or payment of qualified higher education expenses of the beneficiary; *(Beginning in 2002 public or private educational institutions are also allowed to sponsor prepaid tuition programs that satisfy the Section 529 requirements)* or
  - **Savings Plan** - may make contributions to an account that is established for the purpose of meeting the qualified higher education expenses of the designated beneficiary of the account.

# QTP - Federal Requirements

- A QTP must satisfy the following requirements:
  - **Established and maintained by a State or Agency or Instrumentality of a State or an educational institution**
  - **Targeted for higher education expenses**
  - **Cash contributions**
  - **Penalties on refunds**
  - **Separate accounting**
  - **No investment direction**
  - **No pledging of interest as security**
  - **Prohibition on excess (unreasonable) contributions**

*Paragraphs (b) through (i) of Proposed IRS Regulation Section 1.529-2*



# Two basic types of 529 Savings Plan Programs

## **Prepaid Tuition Program**

- generally covers tuition at in-state public institution; may cover some other expenses as well
- generally you can take the value of the contract out of state to college (but not always full value)
- 20 states offer these plans

## **College 529 Savings Program**

- Invest in a variety of funds -- from conservative to aggressive
- Can take full value of your investment to any college in US and to some foreign campuses
- Market risk accompanies these accounts
- 50 states offer these plans

# No Investment Direction

- No account owner, contributor or designated beneficiary may control, directly or indirectly, the investment of any amounts attributable to contributions.
  - *May select from among investment options offered by GHESP*
  - *Plan may not offer individual securities as an option*
  - *May change investment choice(s) once every calendar year or upon a change of the Designated Beneficiary*



Investment Management  
and  
Program Promotion & Administration

# Program Manager

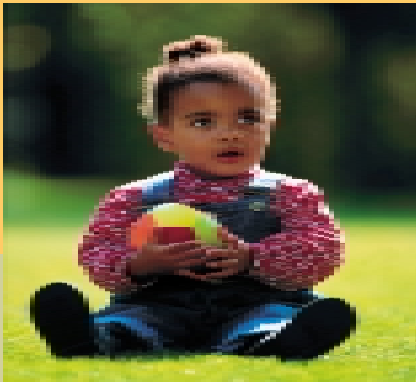
- Tuition Financing, Inc.
  - subsidiary of TIAA-CREF
  - selected as manager for college savings programs in:
    - California, Connecticut, Minnesota, Missouri, Mississippi, Michigan, Oklahoma, Kentucky, Vermont, Idaho, Tennessee and **GEORGIA**

# ***Why TIAA-CREF?***

- One of America's leading financial services organizations
- Largest pension fund manager in the world
- Unique focus on servicing educators and researchers
- Commitment to Georgia
- Industry leader in Tuition Financing

# Investment Objective

- Outpace tuition inflation
- Maximize returns
- Preserve capital
- Account owners do not control investment allocation



*...the next GHESP web site designer*



# **GHESP 529 Savings Program - Investment Options**

1. Managed Allocation Option
2. Aggressive MA Option
3. 100% Equity Option
4. Balanced Fund Option
5. Guaranteed Option

# Asset Management: [www.TIAA-CREF.org](http://www.TIAA-CREF.org)

## ✓ TIAA-CREF Institutional Mutual Funds

- Growth & Income Fund
- Equity Index Fund
- International Equity Fund
- Small-Cap Blend Index Fund
- Large-Cap Value Index Fund
- Real Estate Securities Fund
- Bond Fund
- Inflation-Linked Bond Fund
- Money Market Fund





# Managed and Aggressive Managed Allocation Options

Managed and Aggressive Managed Allocation Options are the core investments for the GHESP 529 Savings Plan program. The Managed Allocation Options follow the time-tested method of using the investor's time horizon to determine the appropriate investment allocation and invests in the following TIAA-CREF Institutional Mutual Funds which are tied to these options:

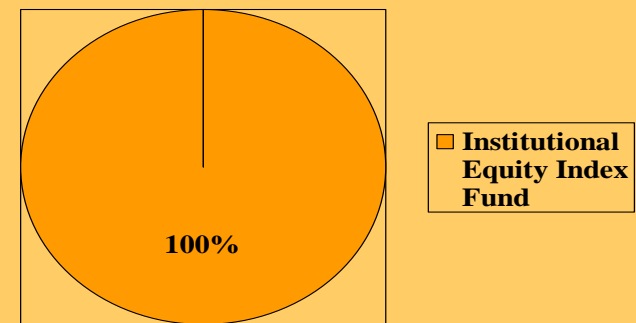
*Growth & Income Fund	*International Equity Fund	*Large-Cap Value Index Fund
*Equity Index Fund	*Small-Cap Blend Index Fund	*Real Estate Securities Fund
*Bond Fund	*Inflation-Linked Bond Fund	*Money Market Fund

The Managed Allocation Options group Beneficiaries into two-year periods according to their date of birth (“Age Bands”).

• Past performance is no guarantee of future results. Investment return and principal value of an investment will fluctuate so an investor's shares, when redeemed, may be worth more or less than their original cost.

# 100% Equity Option

- The **100% Equity Option** Offers a more aggressive investment strategy appealing to individuals seeking higher potential rates of return who are willing to accept a greater degree of risk. This option invests contributions and earnings on contributions in the TIAA-CREF Institutional Equity Index Fund.
- It is important to note that the allocation mix for this Investment Option will not be changed to reflect the age of the designated Beneficiary, unlike the Managed Allocation Options where the allocation changes as your Beneficiary approaches his/her enrollment in an Eligible Educational Institution.



• Past performance is no guarantee of future results. Investment return and principal value of an investment will fluctuate so an investor's shares, when redeemed, may be worth more or less than their original cost.

# Balanced Fund Option

The Balanced Fund Option invests in an equal combination of equity and bond investments offered by TIAA-CREF Institutional Mutual Funds. The Balance Option has approximately 50% of its holdings invested in the following TIAA-CREF Institutional Mutual Funds:

*12% Growth & Income Fund	*17.5% Equity Index Fund	*2.5% Small-Cap Blend Index Fund
*3% Large-Cap Value Index Fund		*5% Real Estate Securities Fund

and approximately 50% of its holdings invested in the TIAA-CREF Institutional Bond Funds:

\*25% Bond Fund

\*25% Inflation-Linked Bond Fund

• Past performance is no guarantee of future results. Investment return and principal value of an investment will fluctuate so an investor's shares, when redeemed, may be worth more or less than their original cost.

# Guaranteed Option

❑ The Guaranteed Option provides a return of principal and an annual minimum rate of return of three percent, with the opportunity for additional returns. TIAA-CREF declared rate of **3%** for the first quarter to account owners. This option provides additional safety and security that people may want for at least a portion of their college savings funds. In addition, investors with shorter investment time frames may find this option appealing, as will investors who want a balanced account by combining this option with one of the more aggressive options detailed in the previous slides.

• Past performance is no guarantee of future results. Investment return and principal value of an investment will fluctuate so an investor's shares, when redeemed, may be worth more or less than their original cost.

## Low Cost

- ➡ **Low expense ratio - approximately 0.85% annualized program management fee charged against value of account, including expenses of underlying mutual funds.**
- ➡ **No application fee**
- ➡ **No transfer fees**
- ➡ **No annual administrative fees**



# Program Risks

- Contributions are not guaranteed under the Managed & Aggressive Managed Allocation Options, 100% Equity Option or the Balance Fund Option.
- Past performance is no guarantee of future results. Investment return and principal value of an investment will fluctuate so an investor's shares, when redeemed, may be worth more or less than their original cost.
- International Mutual Fund: Investing in foreign securities presents certain unique risks not associated with domestic investments, such as currency fluctuation and political and economic changes.
- Money Market Fund: TIAA-CREF Money Market Fund, as in other funds, is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other U.S. government agency. Although the Money Market Fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the fund.
- Past performance is no guarantee of future results. Investment return and principal value of an investment will fluctuate so an investor's shares, when redeemed, may be worth more or less than their original cost.

# Why GHESP 529 Savings Program?

## 529s Provide Three Key Benefits:

- Save and pay for qualified higher education expenses free from federal and state taxes
  - ✓ **Your assets grow free of federal and state income taxes**
  - ✓ **Qualified withdrawals are free of federal and state income taxes**
  - ✓ **Georgia Tax Deduction**
- Potentially significant reductions in the taxable value of your estate
- Control of your money, even after you give it away

 *529s can help you do more than just save for college*

# ATTENTION~GEORGIA RESIDENTS~ATTENTION

## GHESP 529 Savings Program - Georgia Tax Deduction

- ☐ A Parent or Guardian can deduct up to \$2,000 per beneficiary if claimed as a dependant of the parent or legal guardian and if their AGI is within the limits.

Filing Single  $\leq$  \$50,000

Filing Jointly  $\leq$  \$100,000

The max deduction for each beneficiary decreases by \$400 for each \$1000 of federal adjusted gross income over above limits.



# GHESP 529 Savings Program - Georgia Tax Deduction

- ✓ Qualified GA residents: The state tax deduction is available to you every year, and contributions made by April 15 may be deducted on the preceding year's return.
- ✓ GHESP 529 Savings Plan program is the only 529 program to offer a Georgia state tax deduction.

The max deduction for each beneficiary decreases by \$400 for each \$1000 of federal adjusted gross income over \$100,000 for a joint return or \$50,000 for a separate or single return, and is available when an itemized Georgia income tax return is filed. This tax deduction is available to parents or guardians who own an account for a beneficiary who is claimed as a dependent.

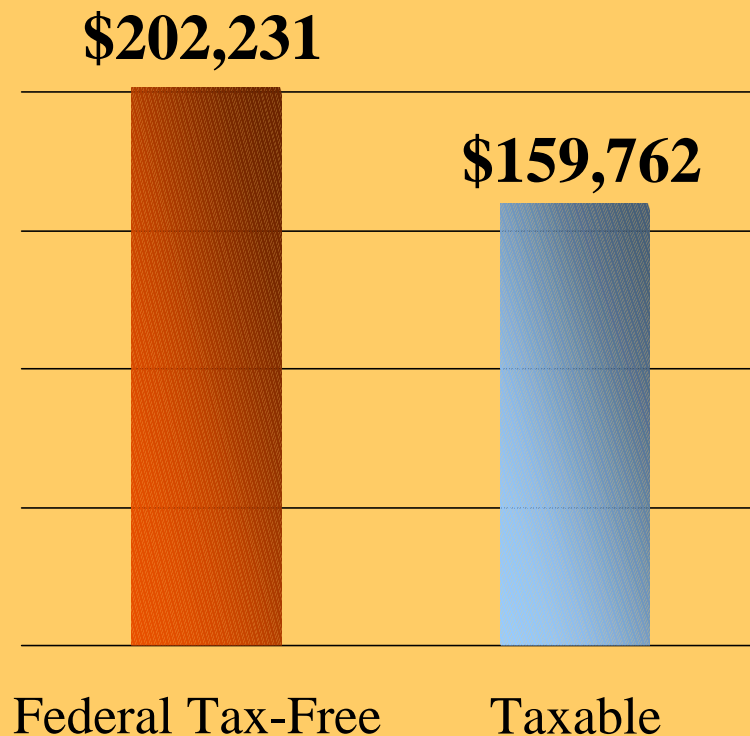
## GHESP 529 Savings Program – How Your Money Works

**TAX FREE WITHDRAWALS** – Money grows tax deferred and may be withdrawn tax free for qualified higher educational withdrawals.

Sunset Provision: 1 Year Requirement

# Why GHESP 529 Savings Program? Tax Advantages

## The Power of Federal Tax-Free Compounding



- ✓ Saving for college free of federal income taxes can make a dramatic difference as you invest over time

This hypothetical illustration does not represent the past or future performance of any actual investment product. It assumes a \$5,000 annual investment made over 18 years with an average annual return of 8.0% and a federal income-tax rate of 28%. Your investment return will fluctuate depending on the investments you select.



*Taxes paid = compounding lost*

# **Program Disclosure Booklet and Savings Trust Agreements**

**Please open your GHESP 529 Savings Plan enrollment kit!**



**The sooner you begin investing for your child's education, the less you may have to put away, because your initial investment will have the potential to grow over time.**

# GHESP 529 Savings Program: Who's Who

## “Participant”



- Account owner/investor
- No age limit
- No income limit



*Other people can contribute to your 529 account*

# GHESP 529 Savings Program: Who's Who

## “Beneficiary”



- Person named on Account as prospective student
- Must be at least one day old
- Must have Social Security Number within 180 days of enrollment



*529s are ideal birthday and holiday gifts*

# Why GHESP 529 Savings Program?

## As a Participant, You Can:



- Open an account for anyone
- Open as many accounts as you wish
- Even open an account for yourself



*An account can have only one Beneficiary*

# Uses of GHESP 529 Savings Program

**Can use at all accredited institutions of higher education in the United States**

- Undergraduate
- Graduate
- Post-grad
- Vocational
- US/international




*529s are great if you want to go back to school “someday”*



# Uses of GHESP 529 Savings Program

## Qualified Higher Education Expenses Currently Include:

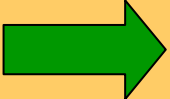
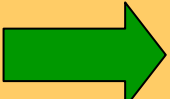


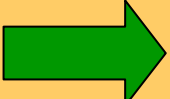
- Tuition
- Fees
- Room
- Books
- Board
- Supplies

 *“Higher Education” isn’t just a four-year college*

# Flexibility

- ➡ **“All” accredited colleges, universities or vocational schools throughout the country**
- ➡ **All “qualified” higher education expenses**
- ➡ **You may designate anyone as a beneficiary**
- ➡ **Affordable initial & subsequent contributions**
- ➡ **No adjusted gross income limitations**

## **Flexibility**

-  **Your employer may offer payroll deduction**
-  **Ability to change beneficiaries**
-  **Contingent account owner**
-  **Ability to assign account to another owner**
-  **\$235,000 lifetime maximum account balance  
Per beneficiary from all account owners**

# **Employers: How to Administer Payroll Deduction**

- ✓ **Process employee contributions through Automated Clearing House (ACH)**
- ✓ **Process employee contributions through Payroll Deposit System:**
  - **Hard Copy Check and Spreadsheet listing employees/contributions**
  - **Tape: Standard Cartridge & Reel-to-Reel**
- ✓ **Small businesses with 75 employees and less can process by submitting a Group Purchase report.**

## **BENEFITS:**

- ☐ **No cost to the employer and no tax reporting**

## **Flexibility:**

**Contributions can be made in a variety of ways:**

- ✓ **Payroll Deduction (if available)**
- ✓ **Monthly ACH from Bank Account**
- ✓ **By Check**



# GHESP 529 Savings Program - Withdrawals

## Four Ways to Get Your Money Out

- Qualified: Free of federal and state taxes
- Non-qualified: Tax + 10% penalty on earnings
- Non-qualified with exception: Tax on earnings, no penalty (in cases of Death; Disability; Scholarship)
- Trustee-to-Trustee Rollover



*The flexibility of a 529 can help mitigate future uncertainty*

# **GHESP 529 Savings Program - Qualified Withdrawals**

- ✓ **Qualified withdrawals are exempt from Georgia state personal income tax.**
- ✓ **Qualified withdrawals are exempt from federal income tax\***
- ❖ **GA sunset policy states the account is subject to a 12-month holding period for withdrawals to be qualified. Otherwise, if monies are withdrawn within the one year holding period, account owner will pay state tax; however, no federal tax or 10% withdrawal penalty will be applied to the earnings for qualified withdrawals.**

**\* The provisions of the new federal tax law remain in effect until December 31, 2010. Congress may or may not extend the law beyond this date.**

# **GHESP 529 Savings Program - Non-Qualified Withdrawals**

Non-qualified withdrawals are those not used for qualified higher education expenses and withdrawals not due to the death, disability or receipt of scholarship by the beneficiary

- ✓ **Subject to Georgia's State income tax and state tax deduction recapture**
- ✓ **Federal tax on the earnings portion of the withdrawal**
- ✓ **Additional 10% federal tax on the earnings portion of the withdrawal**



# GHESP 529 Savings Program - Contribution Limits

## 529s Let You Save *Meaningful* Amounts

- States calculate limits based on actual costs at real schools
- Limits kick in when the *total value* of your account reaches the maximum
- Maximums are generous – GHESP is \$235,000



*Limits pertain to each Beneficiary*

# Why GHESP 529 Savings Program?

## Significant Estate Planning Benefits

- Give up to \$11,000 annually without gift tax
- Account for a single contribution of \$55,000 as separate \$11,000 gifts over five years
- Reduce your taxable estate with each contribution



*529 is the only way you can give \$55,000 tax-free in one year*

# Why GHESP 529 Savings Program?

## **YOU** Control Your Money:

- Choose how your assets are initially invested
- Cash out, if you wish (with 10% penalty & tax on earnings portion of account; in addition, the value of the account is again included in the taxable value of your estate)
- Name and change Beneficiary (with certain limitations)

 *Control may be the most important benefit of 529s*

# Why Control Can Be Important

If She'd Rather Be a Rock Star...



*Relax ... you have control of your money*

# Why Control Can Be Important

... Just Name a New Beneficiary



**i** *Must be a member of the original Beneficiary's family*

# Change of Beneficiary

- Beneficiaries can be changed without income tax consequences
  - ✓ Only if “member of family” of current beneficiary
  - ✓ Relationships are all measured with regard to the beneficiary
  - ❑ Full “Member of Family” definition in Proposed IRS Regulation Section 1.529-1(c)

# “Member of Family”

- A “Member of Family” of the beneficiary includes the following:
  - A son or daughter (natural or legally adopted), or a descendent of either;
  - A stepson or stepdaughter;
  - A brother or sister (by whole or half-blood), or stepbrother or stepsister;
  - The father or mother, or an ancestor of either;
  - A stepfather or stepmother;
  - A niece or nephew;
  - An aunt or uncle;
  - A son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law; or
  - The spouse of the designated beneficiary or the spouse of any of the relatives listed above
  - First cousins (although a spouse of a first cousin won't qualify)

# Control ... *and* Flexibility

## As a Participant, You Can Change:

- ✓ Investment options or plans an unlimited number of times annually if you name a new Beneficiary each time
- ✓ Investment options once each calendar year within the same plan for the same Beneficiary
- ✓ To a new 529 plan every 12 months

 *529s are not as restrictive as some people might think*



# How to choose a 529 savings program?



- Broker or no broker
  - 📄 fees
  - 📄 advice
- Types of investments offered
  - 📁 lifecycle
  - 📁 index
  - 📁 targeted
    - 📁 conservative
    - 📁 balanced
    - 📁 aggressive
  - 📁 protected
  - 📁 individual mutual funds

# How to decide where to invest...

## ❑ Evaluate plans on web sites

- <http://www.savingforcollege.com>



- <http://www.GAcollegesavings.com>
- Call toll free 877-424-4377
- Georgia Higher Education Savings Plan

# GHESP 529 Savings Program - Georgia Tax Deduction

- ✓ Qualified GA residents: The state tax deduction is available to you every year, and contributions made by April 15 may be deducted on the preceding year's return.
- ✓ GHESP 529 Savings Plan program is the only 529 program to offer a Georgia state tax deduction.

The max deduction for each beneficiary decreases by \$400 for each \$1000 of federal adjusted gross income over \$100,000 for a joint return or \$50,000 for a separate or single return, and is available when an itemized Georgia income tax return is filed. This tax deduction is available to parents or guardians who own an account for a beneficiary who is claimed as a dependent.

# GHESP 529 Savings Program: Federal Benefits

- ✓ What other program allows the accumulation of over \$235,000 in a tax-sheltered account for one child's future college costs?
- ✓ What other mechanism allows someone with a large estate to immediately reduce that estate by \$55,000 per child (or grandchild) without triggering gift tax, and without losing control of the assets?
- ✓ What other tax-advantaged program allows everyone to participate, without regard for age or income level?

***Answer: There is no other tax-advantage program that provides the combination of benefits that a 529 plan (GHESP) does.***

• Past performance is no guarantee of future results. Investment return and principal value of an investment will fluctuate so an investor's shares, when redeemed, may be worth more or less than their original cost.

**THANK YOU!**

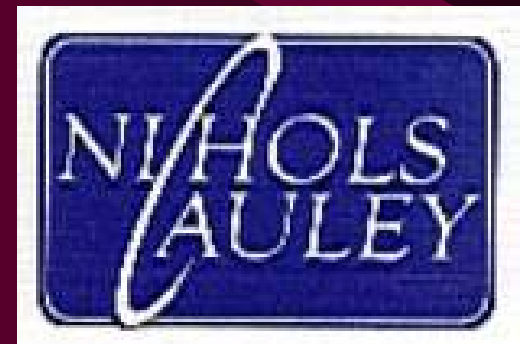
**<http://www.GAcollagesavings.com>**

**Call toll free 877-424-4377**

# Money Matters Investment Education Seminar

## Women And Investing

Practical Solutions for  
Building Your Wealth



Feb. 24, 2004

*Let's Get Started*

# Why Are We Here? To Help You...

- Define your hopes, dreams and financial goals
- Identify potential challenges
- Share ideas
- Develop solutions for success
- Define what you need to do next

# Good News For Women...

## Women Have More

- Number of affluent women has grown nearly 70%
- Women make up 1.3 million of the top wealth-holders in the U.S., with a combined net worth of almost \$1.8 trillion
- 43% of those with \$500,000+ in financial assets are women



# Good News for Women...

## Women Have More

- Control almost 60% of the wealth in America
- Are the primary purchasing decision-makers in 80% of nation's households
- Buy nearly half of all new cars
- Single women represent 20% of all first-time homebuyers

Feb. 24, 2004

Sources of data: National Foundation of Women Business Owners; OppenheimerFunds Inc.; The Trendsight Group; CNW Research, as cited on [www.womanmotorist.com](http://www.womanmotorist.com); National Association of Realtors, as cited on Business Women's Network, [www.bwni.com](http://www.bwni.com).

# Good News for Women...

## Women Are Moving Up

- Hold 46% of management and professional jobs
- Represent nearly 16% of all corporate officers in the Fortune 500
- Own 6 million businesses that employ 9.2 million people and generate \$1.15 trillion in sales

# **Good News for Women...**

## **Gaining Confidence and Knowledge!**

- 77% feel they're more knowledgeable about investing
- 40% know that stocks have produced the best returns
- Over half know how a mutual fund works
- 64% say they're adequately preparing for retirement

# Obstacles for Women to Overcome

- Live longer
- Earn less money
- Change jobs more frequently
- Work less years (leave and rejoin the workforce)
- “Too busy”

# Research

Shows that 9 out of 10 women will be solely responsible for managing their own finances.

# It's Not as Hard As You Think!

## FINANCIAL PLANNING BASICS

- Select an Advisor
- Set Goals
- Allocate and Diversify
- Monitor Investments

# Secrets of Success

- Take the Free Money
- Stiff the IRS
- Time in, not Timing
- Develop a Plan for your Life Stages and Know the Cost of Each
- Know your Risk Tolerance

# Take the Free Money!

- 1) Most employer sponsored retirement plans offer a “match” which means they’ll put in if you do! Usually they’ll match the amount you defer up to a point – 3-6%. Be sure you are deferring AT LEAST as much as your employer will match.
- 2) Check your spouse’s plan too!



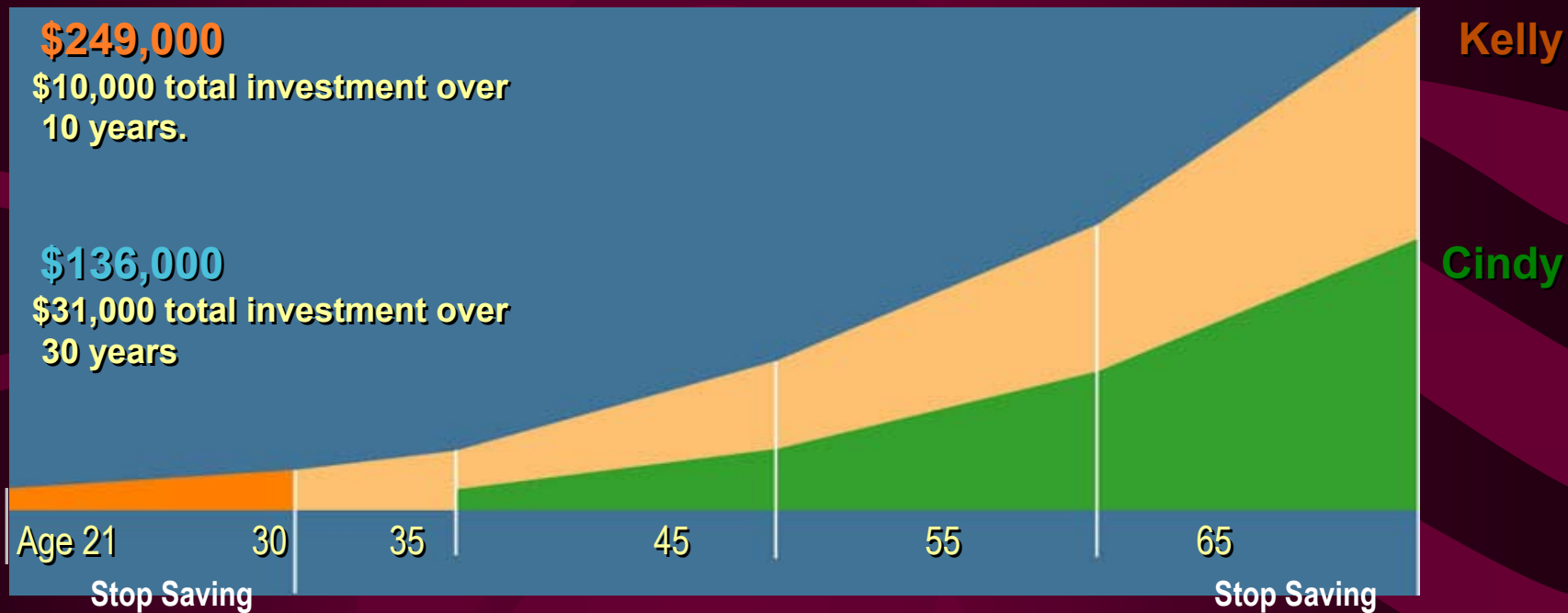
# Stiff the IRS

“ONE – TIME GOOD DEAL”

A Good Deal from Uncle Sam!

- Not pay taxes on \$9,000 to \$13,000 of your income in 2004? It's easy! Just put it in your company's retirement plan!
- Every dollar you put in your company's retirement plan lowers your taxable income dollar for dollar!
- This is the best savings program because it easy and automatic!

# The Power of Compounding Takes Time Not Money



These examples are based on annual contributions to a tax-deferred retirement plan. Your own account may earn more or less than this example, and income taxes will be due upon withdrawal from your plan account. This illustration illustrates two hypothetical accounts and does not depict or predict the investment results of any of the Oppenheimer funds. Assumes no fluctuation in principal or rate of return.

Feb. 24, 2004

# What are your goals?



Safety Net : 3-6 mos. Living Expenses

# Know Your Risk Tolerance

1 2 3 4 5 6 7 8 9 10



Feb. 24, 2004

# **Now let's look at your life:**

Here are six questions for you to consider.

**1.**

**Do you have a  
financial plan?**

**2.**

**Are you maintaining a long-term horizon—or living for today?**

**3.**

**Have you allocated your assets to include the right mix of stocks, bonds and cash?**



**4.**

**Are you diversified enough  
to manage risk?**

**5.**

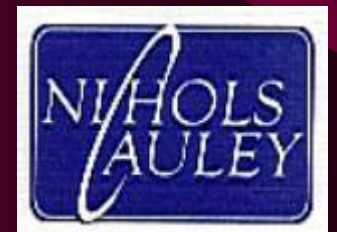
**Have you reduced your taxes  
with tax-deferred or tax-free  
investments?**

**6.**

**Can you save more?  
Can you start today?  
Can you invest better?**

# Take Control! You Can:

- **Take some time**  
You don't need as much as you think
- **Learn about investing**  
You don't need to become an expert
- **Get help**  
You don't need to do it all yourself
- **Invest for the long term**  
**It's not too late to start right now**



**YOU CAN DO IT!**

**THANK YOU FOR COMING!**

# Stockbroker Basics: How to Pick an Adviser and What Service to Expect

Bob Terry, Former Director  
Georgia Securities Division

# What's the difference?

- Financial Planner – generic term
- Financial Adviser – generic term
- Investment Adviser – requires license
- Stockbroker – requires license

Here's a radical thought:

Do you even need a  
stockbroker  
or investment adviser?



# You may not need one if:

- You are capable and confident about managing your own financial affairs
- You prefer to invest in mutual funds with firms having their own account systems
- You are comfortable doing your investing online

# Is planning your investment activity -

- Like walking? (It comes naturally, and once you've learned how to do it, it's easy).
- Like driving? (It helps to have some lessons to get started right, but then you're fine after that.)
- Like rock climbing? (You need help and encouragement to get started, and you'd never do it alone.)

Unless you're a licensed pilot,  
investing is not like flying a plane.

**You can never sit back and let  
someone else do all the work.**

# Who is your best choice for a financial adviser?

- Your barber?
- Your best friend?
- Your father?
- The guys on the financial TV shows?
- The guy on the telephone trying to sell you something?
- Someone who just hangs out a shingle?

# Professional financial advisers

- Have some kind of license or licenses.
- May have additional professional designations, such as CFP.
- Sell or give advice about licensed and regulated financial products.
- Usually like to get paid for what they do.

# You may be offered advice by ...

- Stockbrokers
- CPA's
- Investment advisers
- Insurance agents
- Bankers

# Stockbrokers

- Are licensed to sell securities
- Must be affiliated with a brokerage firm
- Are usually paid by commissions, but not always
- May give advice without additional licenses if there is no special compensation
- May hold other licenses

# Investment advisers

- Are licensed to be paid for giving investment advice
- Are usually paid based on assets under management or an hourly or fixed fee
- May offer free or fixed-cost initial financial plans (which may or may not be sales tools)
- May also hold other licenses



# Insurance agents

- Are licensed to sell insurance, not securities
- Some products which seem to be securities, such as variable annuities, can be sold by insurance agents
- Are usually paid by commission
- May also hold other licenses – this is becoming more common

# CPA's

- May hold other licenses
- May not be compensated for selling or advising about securities unless
  - they hold another license, or
  - their advice is “incidental” to their other business

# Bankers

- Banks are licensed, but bankers aren't
- Banks may have affiliates or employees who are licensed to sell securities or insurance
- Offices may have sign and separate office that says "Investments"
- Often they are commissioned stockbrokers

# Basic types of “financial” licenses

- Securities salesperson
  - Different types of licenses
  - Series 7 is the broadest license type
  - Series 6 only sells mutual funds
- Investment adviser
- Insurance agent

# Who is best for you?

- What do you plan to invest in?
- How much will you be investing?
- What type of investor are you?
- Do you need research help?
- Can you use the Internet?
- How diligent are you?

# Brokerage firms are different

- “Full service” firms – higher commissions, lots of research, suggestions, someone to talk to who will offer investment advice
- “Discount” firms – lower commissions, varying levels of research, usually no suggestions, customer service can answer general questions

# Points to consider

- Firms may have proprietary products which carry sales incentives
- Firms may have “featured” products from other companies who pay incentives
- Large firm may have greater financial solvency if there’s a problem
- Can you buy “no-load” funds?

# If your brother-in-law calls...

- What happens if there is a problem?
- Do you really want him to know the details of your finances?
- Is your relationship such that you can turn down his advice?
- Is he really the best qualified person to advise you – and can you answer that honestly?



# Check out possible choices by:

- Checking out the NASD Public Disclosure website
- Contacting the Secretary of State
- Determining his or her credentials
- An interview (After all, you're hiring someone).
- Getting references, and actually calling them (but don't rely too much on them).

# Opening the account

- New account agreement
- Financial information and investment objectives
- Margin and option agreements (tickets to Las Vegas not included)
- IRA forms – designating beneficiary
- Special forms – custodial or trust account
- Identity updates for Patriot Act

# The work doesn't stop then -

- Stay informed about the economy. (Wall Street Journal)
- Open all your mail from your broker.
- Yes, really. You'd be surprised how many people don't, especially in down markets.
- Then, read your mail.
- If you don't understand something, call your broker.

# You should expect

- Honesty
- Expertise
- Attention
- Time
- Suitable recommendations
- Your best interests to be paramount

# Key communications – Part I

- Account agreement must accurately convey your investment objectives
- Confirmations are sent after every trade
- Account statements show your activity
- 1099's are for your taxes
- Take notes during telephone calls
- Keep all correspondence

# Key communications - Part II

- Don't throw away anything
- Keep your records in a safe place
- Shoe boxes, kitchen drawers, your car's trunk or glove compartment and your attic do not count as safe places
- Expect prompt answers

# Warning signs - Part I

- You cannot reach your broker
- Your account statements reflect unknown trades
- You receive confirmations for unknown trades
- Your broker suggests more trades than you are comfortable with
- Your broker makes an unapproved trade

# Warning signs -Part II

- Your investment objectives were conservative, but your account is volatile
- Your broker or adviser suggests odd or high interest rate investments
- Your broker asks that checks be made payable to an individual or some other unusual name



# Warning Signs - Part III

- You don't understand something, and your broker can't explain it
- Anything else that makes you feel uncomfortable, or that seems unusual
- Remember – it's your money. You have a right to know what's going on!

# If you have a problem:

- File a written complaint with the firm
- Send a copy to the NASD and the Secretary of State
- Be persistent
- If your concern is not resolved quickly, get a lawyer

# Your legal rights:

- Most brokerage disputes must be arbitrated
- Arbitrations are usually faster and less expensive, but you still need a lawyer
- Arbitration awards are usually not appealable
- Regulators may investigate allegations of wrongdoing, but usually do not sue on your behalf to recover your money

The most important slide of this presentation:

**Whatever you decide, start planning for your future now!**

# MONEY MATTERS

## Web sites and financial tools for Money Matters

**NOTE:** The information herein is provided to assist individuals with their financial management. It is not meant to be exhaustive or complete. The reader is solely responsible for the application of any information contained herein to their personal financial circumstances. The mention of any product, company, organization, or individual in this listing is meant to be incidental to the instructional materials and not a recommendation or endorsement of that specific product, process, individual, organization, or entity.

Some websites may require registration or payment of a membership fee to receive information or assistance. Some of these sites may also advertise books, magazines, subscriptions, and products for additional financial services.

**CAUTION:** Unfortunately illicit investment schemes also now flourish on commercial bulletin board services and the Internet. The ease of access to information and financial transactions can lead to easy investment fraud, identity theft, and other crimes. Take extreme diligence in investigating all facts before acting on any information transacted through cyberspace.

**PARTNERS IN TONIGHT'S PRESENTATIONS:**  
**Our partners in the Money Matters seminars have various informational tools available through their websites:**

Financial Advisors, Inc.

<http://www.advisorsquare.com/advisors/financialadvisors/default.asp>

Morgan Keegan

<http://www.morgankeegan.com/html/blue/ourstory/locations/city.asp?city=Albany&state=GA>

Nichols, Cauley & Associates, LLC

<http://www.nicholscauley.com>

The Federal Reserve Bank – Personal Financial Education

<http://www.federalreserveeducation.org/fined/index.cfm>

The Georgia Consortium for Personal Financial Literacy

<http://www.gacte.org/gaconsort.html>

American Association of Retired Persons, AARP

<http://www.aarp.org/>

The Securities Industry Foundation for Economic Education offers a participative stock market game aimed at primary school children, The Stock Market Game Program

<http://www.smgww.org/>

Georgia Council for Economic Education also offers information on personal financial literacy.

<http://www.gcee.org/www/projects/finliteracy.htm>

Investor Protection Trust

<http://www.investorprotection.org/>

Georgia Division of Aging Services, Department of Human Resources

<http://www2.state.ga.us/departments/dhr/aging.html>

Employees Retirement System of Georgia

<http://www.ersga.org/>

Peachstate Reserves, Georgia Merit System

<http://www.gms.state.ga.us/employee/deferred.asp>

Georgia Higher Education Savings Plan

<http://www.gacollegesavings.com/>

**Professional Planning Assistance** - There are a number of web sites available for those seeking the assistance of a professional financial planner. Some of these sites also provide information about the advantages of using independent financial planning assistance. These sites include:

Certified Financial Planner, Board of Standards

<http://www.cfp.net/default.asp>

Financial Planning Association

<http://www.fpanet.org/>

National Association of Personal Financial Advisors

<http://www.napfa.org/>

**Regulation & Certification** - These sites offer information about the regulation of many facets of the financial planning industry.

American Bar Association

<http://www.abanet.org/>

American Institute of Certified Public Accountants (CPA/PFS)

<http://www.aicpa.org/>

Association for Investment Management and Research (CFA designation)

<http://www.aimr.org/>

Financial Planning Magazine Online

<http://www.financial-planning.com/>

National Association of Insurance Commissioners

<http://www.naic.org/>

National Association of State Boards of Accountancy

<http://www.nasba.org/>

North American Securities Administrators Association

<http://www.nasaa.org/>

Securities and Exchange Commission

<http://www.sec.gov/>

Small Business Association

<http://www.sba.gov/>

Society of Financial Service Professionals (formerly the American Society of CLU & ChFC)

<http://www.asclu.org/>

U.S. Chamber of Commerce

<http://www.uschamber.org/>

National Association of Securities Dealers

[www.nasd.com](http://www.nasd.com)

North American Securities Administrators Association

[www.nasaa.org](http://www.nasaa.org)

Federal Reserve

[www.fed.gov](http://www.fed.gov)

Federal Deposit Insurance Corporation

[www.fdic.gov](http://www.fdic.gov)

Public Investors Arbitration Bar Association

[www.piaba.org](http://www.piaba.org)

## Self-Directed Financial Planning -

**There are a number of Websites available for those self-directing their financial planning. These sites provide information on a wide range of financial planning topics and tools to help you plan specific areas of your finances. Remember to ALWAYS apply the information you receive to your personal situation before making any investing or purchasing decisions.**

The Motley Fool

<http://www.fool.com/>

Cable News network and Money Magazine

<http://money.cnn.com/>



Smart Money Magazine (Dow Jones/Hearst) (BW: Bond Site)

[www.smartmoney.com](http://www.smartmoney.com)

Clark Howard, consumer advocate, has a web site that provides consumer advice, education, and suggestions on problem resolution.

<http://clarkhoward.com/>

Investopedia, a Canadian site, similar to the Motley Fool, but with primary emphasis on investing.

<http://www.investopedia.com/>

A site for helping people in debt avoid bankruptcy and strategically get out of debt is

[www.myvesta.org](http://www.myvesta.org)

Cooperative State, Research, Education and Extension Service, Consumer and Family Economics

[www.reeusda.gov/ecs/cfe.htm](http://www.reeusda.gov/ecs/cfe.htm)

University of Georgia Cooperative Extension Service, Family and Consumer Sciences

[www.fcs.uga.edu/extension/econ\\_ext.htm](http://www.fcs.uga.edu/extension/econ_ext.htm)

A better understanding of credit reports and FICO scores can be gleaned from:

[www.myfico.com](http://www.myfico.com)

National Endowment for Financial Education

[www.nefe.org](http://www.nefe.org)

Women's Institute for Financial Education

[www.wife.org](http://www.wife.org)

### **Rates for bank deposits, consumer loans, credit cards etc.**

These sites offer information on national rates for a number of consumer finance vehicles.

[www.bankrate.com](http://www.bankrate.com)

[www.banxquote.com](http://www.banxquote.com)

### **Financial Calculators – A number of sites offer a number of financial calculators one can use in self-directed financial planning.**

One of the best-known sites for on-line financial calculators is Financial Engines

[www.financialengines.com](http://www.financialengines.com)

A calculator for saving for education can be found at:

<http://www.bloomberg.com/analysis/calculators/education.html>

American Savings Education Council

<http://www.asec.org>

Insurance Desk, Financial and Insurance Calculators

<http://www.quickcals.com>

Kiplinger Online (calculators) and budget building apparatus.

<http://www.kiplinger.com>

Money Magazine

<http://www.moneymag.com>

MoneyWeb

<http://www.moneycalculators.com>

Mortgage Calculators

<http://www.mcalculator.com>

On Money

<http://www.onmoney.com>

U.S. News

<http://www.usnews.com/usnews/biztech/bttools.htm>

KJE Computer solutions has a website of financial calculators

<http://www.dinkytown.net/>

Cost of living calculators

The Consumer price Index is commonly called the “Cost of Living” index and widely used as the “rate of inflation” is developed and managed by the US Department of Labor. Information about how the CPI is determined, its application to various aspects of the economy, and calculators to measure the CPI are available at the Labor website.

<http://www.bls.gov/cpi/>

Forwards and backwards calculator

<http://www.newsengin.com/neFreeTools.nsf/083c35bcd0562e26862565af0057ad64/3622d21c19bacc7d85256d4c0001e6cd?OpenDocument>

Credit Reporting agencies – For obtaining copies of your FICO score, credit report and resolving disputes:

Equifax 800-685-1111

<http://www.equifax.com/>

Experian 888-397-3742

<http://www.experian.com/>

Transunion 800-916-8800

<http://www.transunion.com/>

## Taxation -

**These sites offer information specific to taxation components of financial planning.**

The IRS offers a significant amount of information in their web site to assist persons with their tax compliance concerns. This includes publications, auditing guidelines, and tax filing forms along with all instructions needed for electronic filing.

<http://www.irs.gov/>

One IRS site of interest to small business owners will be the Market Segment Specialization Program. At this web site, one can download the Audit Techniques Guides that IRS examiners use when they audit small businesses. Guides are available for a number businesses such as used car dealer, minister, many of the construction industries, etc. These Guides contain examination techniques, common and unique industry issues, business practices, industry terminology and other information to assist examiners in performing examinations

<http://www.irs.gov/businesses/small/article/0,,id=108149,00.html>

Information on Georgia Income Tax can be found at:

<http://www.gatax.org/>

One of the most comprehensive indices to both tax and accounting Internet sites can be found at the YRL below. This has links to virtually all the important tax and accounting data available through the Internet.

<http://www.taxsites.com/>

Per Diem Rates and other US Government policy documents promulgated through GSA can be found at their web site:

<http://www.gsa.gov/Portal/gsa/ep/home.do?tabId=0>

Foreign Perdiem rates can be found at:

<http://www.state.gov/m/a/als/prdm/>

US Tax Court publishes regular information on their decisions, post 1998. Accessing these decisions may require payment. Today's tax decisions, if any, are posted after 3:30.

<http://www.ustaxcourt.gov/>

Search historic opinions through this website.

<http://www.ustaxcourt.gov/UstcInOp/asp/HistoricOptions.asp>

Revenue Rulings from 1954-2003 are available from:

<http://www.taxlinks.com/>

Revenue Procedures and other tax information can be found at:

[http://www.legalbitstream.com/irs\\_materials.asp?pl=i3](http://www.legalbitstream.com/irs_materials.asp?pl=i3)

The entire US Tax Code is available on line. You can access the complete text of the United States Internal Revenue Code, Title 26 of the U.S. Code (26 USC) in a variety of ways.

<http://www.fourmilab.ch/ustax/ustax.html>

Tax issues can be particularly daunting for investors. This site provides guides on a range of investment related topics:

<http://www.fairmark.com/>

Accountants World, a collective of independent accountants provides tax information through their website. There is a lot of information geared to small businesses in administering fiscal and tax matters.

<http://www.accountantsworld.com/>

The American Bar Association hosts a number of two-way mailing lists, which are true discussion lists. Content is posted by participants leading to broad discussions on issues. The address for tax related discussions is:

<http://mail.abanet.org/archives/aba-tax.html>

<http://mail.abanet.org/archives/aba-ptl.html>

The Tax Prophet, a tax attorney in California sponsors a web site with tax information. Of particular interest is information about tax scams and fraud cases.

<http://www.taxprophet.com/tp.htm>

Information particular to Roth IRA can be found at:

<http://www.rothira.com/>

General Tax information is available through H&R Block

<http://www.hrblock.com/>

These sites can help you calculate the tax basis on mutual funds and includes other tax calculators

<http://bigcharts.marketwatch.com/>

<http://www.1040tools.com/>

Charitable contributions and planning are an important part of Tax planning:

The Salvation Army provides a guide to the values of the donations it receives from individuals. Call 800-829-1040 to determine if a charitable organization is “qualified”

<http://www.salvationarmysouth.org/valueguide.htm>

CCH, information services, software and workflow tools for tax, accounting, professionals. It also offers tax tool kits for small business owners.

<http://www.cch.com/default.asp>

BNA is a publisher of print and electronic news, analysis, and reference products, providing coverage of legal and regulatory developments for professionals in business and government.

<http://www.bna.com/>

National Association of Tax Practitioners has a website with useful tax information available to non-members.

<http://www.natptax.com>

Research Institute of America (RIA) is a provider of advanced research, practice materials, and compliance tools for tax, accounting and corporate finance professionals.

<http://www.riatax.com>

Small Business Taxes & Management <sup>™</sup> provides tax and management guidance to small and medium sized businesses and their owners.

<http://www.smbiz.com>

The Tax and Accounting Sites directory offers Internet links to hundreds of sites related to financial planning including taxes.

<http://www.taxsites.com>

National Association of Financial and Estate Planning (NAFEP) a for-profit company offers an array of both standard and sophisticated estate planning programs, which Associates provide to their clients.

[http://www.nafep.com/business\\_entities/](http://www.nafep.com/business_entities/)

American Institute of Certified Public Accountants (CPA/PFS)

<http://www.aicpa.org>

If you are an employer or accountant for businesses, BenefitsLink has provided free compliance information and tools for employee benefit plan sponsors, service-providers and participants. This site is independently published.

<http://www.benefitslink.com/>

If you have been assessed a payroll penalty from IRS, this site provides information and calculations that may allow you to reduce your penalty.

<http://www.payrollpenalty.com/taxpenalty/>

This site offers tax information and provides some assistance with questions. NOTE: THIS SITE IS NOT AFFILIATED WITH THE UNITED STATE INTERNAL REVENUE SERVICE OR ANY STATE OR MUNICIPAL TAXING AUTHORITY.

<http://www.irs.com/?SSAID=59710>

Another helpful site with tax advice and forms is

[www.1040.com](http://www.1040.com)

A leading developer of tax software, Drake, sponsors a website with helpful tax information.

<http://www.drakesoftware.com/>

FindLaw provides comprehensive legal resources on the Internet for legal professionals, businesses, students and individuals. These resources include Web search utilities, cases and codes, legal news, an online career center, and community-oriented tools, such as a secure document management utility, mailing lists, message boards and free e-mail.

<http://www.findlaw.com/>

Smart Money magazine offers tax advice via this website.

<http://www.smartmoney.com/tax/>

Tax Analysts is a nonprofit corporation that provides timely tax news and analysis from a number of sources.

<http://www.taxanalysts.com/www/website.nsf/Web/AboutTaxAnalysts?OpenDocument>

## **Estate Planning. -**

**NOTE: Estate planning is very complex because so many issues come into play and estate laws vary among states. Estate planning, especially for wealthier persons, should not be totally self-directed.**

Answers to many nuts and bolts questions can be found at a site administered elder law attorneys in Boston, and highly rated by the Wall Street Journal:

<http://www.elderlawanswers.com/>

Inheritance and sudden wealth issues also need planning reflective thoughts.

These sites deal with those issues and the effect on individuals and their financial planning.

<http://www.inheritance-project.com/>

The site for the Affluenza Project offers information for organizations on handling sudden wealth in a socially responsible fashion

<http://www.affluenza.com/>

Beyond the Grave revised edition : Right Way and the Wrong Way of Leaving Money To Your Children (and Others), The

by [Gerald M. Condon](#) (Author)

Bloomberg News Service post information relative to the US and foreign equity and bond markets at it's site. Also available through the site are Bloomberg radio, magazine, and television subscriptions.

<http://bloomberg.com/>

American Bar Association's Publishing Subject Index

<http://www.abanet.org/abapubs/estates.html>

American Bar Association's Probate & Trust Law Section

<http://www.abanet.org/rppt/home.html>

American College of Trust and Estate Counsel

<http://www.actec.org/>

Estate Planning Links

<http://www.estateplanninglinks.com/> and <http://www.ca-probate.com/links.htm>

FindLaw Internet Legal Resources

<http://www.findlaw.com>

LifeNet

<http://www.lifenet.com>

The American Bar Association hosts a number of two-way mailing lists, which are true discussion lists. Content is posted by participants leading to broad discussions on issues. The address for probate and estate related discussions is:

<http://mail.abanet.org/archives/aba-ptl.html>

National Association of Financial and Estate Planning Website

<http://www.nafep.com>

Nolo Press Self-Help Law Center

<http://www.nolo.com>

U.S. Estate Planning Law (Cornell University)

[http://www.law.cornell.edu/topics/estate\\_planning.html](http://www.law.cornell.edu/topics/estate_planning.html)

WebTrust

<http://www.webtrust.com>

Wills on the Web

<http://www.courtstv.com/legaldocs/newsmakers/wills>

There are many books helping individuals deal with sudden wealth syndrome. Some are:

Why Smart People Make Big Money Mistakes And How To Correct Them: Lessons From The New Science Of Behavioral Economics by [Gary Belsky](#), [Thomas Gilovich](#)

Sudden Money: Managing a Financial Windfall  
by [Susan Bradley](#) (Author), [Mary Martin](#) (Author)

The Seven Stages of Money Maturity: Understanding the Spirit and Value of Money in Your Life by [George Kinder](#)

## Retirement & Pensions

**A number of sites offer calculators or advice tailored to retirement planning.**

These two sites, below, were recently rated best by the Wall St. Journal for providing retirement financing using multiple variables.

T Rowe Price Financial Services  
<http://www3.troweprice.com/ric/RIC/>

ING Group Financial Services  
[http://www.ing.com/us/tools\\_calcs/retire/index.html](http://www.ing.com/us/tools_calcs/retire/index.html)

Self help for Individual Retirement Accounts (IRA's)  
Nationally known author Ed Slott offers assistance on a number of financial planning issues on his web site. Recently the Wall Street Journal picked this among the best for help with IRA's.  
<http://www.ira-help.com/>

TIAA-CREF  
<http://www.tiaa-cref.org>

American Society of Pension Actuaries  
<http://www.aspa.org/>

Associations of Private Pension and Welfare Plans  
<http://www.appwp.org>

Benefits Link  
<http://www.benefitslink.com>

ESOP Association  
<http://www.the-esop-empowner.org>

Employee Benefit Research Institute  
<http://www.ebri.org>



International Foundation of Employee Benefit Plans

<http://www.ifebp.org>

National Institute of Pension Administrators

<http://www.nipa.org>

National Tax Sheltered Annuity - The National Tax Sheltered Accounts Association (NTSAA) is an independent, non-profit association dedicated to the; 403(b) and; 457 marketplace.

<http://www.ntsaa.org>

Pension Benefit Guaranty Corporation (PBGC)

<http://www.pbgc.gov>

Pension and Welfare Benefits Administration

<http://www.dol.gov/dol/pwba>

Profit Sharing/401(k) Council of America

<http://www.pzca.org>

U.S. Department of Labor, Pension, and Welfare Benefits Administration

<http://www.dol.gov/dol/pwba>

Administration on Aging

<http://www.aoa.dhhs.gov>

American Society of Aging

<http://www.asaging.org>

International Society of Retirement Planning

<http://www.isrplan.org>

National Council on Aging

<http://www.ncoa.org>

Pension Planners

<http://www.pensionplanners.com>

Senior Law

<http://www.seniorlaw.com>

Social Security Online

<http://www.ssa.gov>

The Retire Early Homepage

<http://www.retireearlyhomepage.com>

Tim Younkin (information on 401(k)s)

<http://www.timyounkin.com>

U.S. Census Bureau

<http://www.census.gov>

Association for Investment Management and Research (CFA designation)

<http://www.aimr.org>

The American College- The American College is an independent, accredited, nonprofit educational institution that provides graduate and professional education, in the field of financial services.

<http://www.amercoll.edu>

General Retirement planning and living can be found at:

<http://www.thirdage.com/>

## Investing

**Information relating to investing and professional organizations for investing includes the following:**

Association for Investment Management and Research

<http://www.aimr.org/>

Comprehensive information on individual stocks and or price quotes can be found at:

<http://www.stockmaster.com/>

<http://www.nasdaq.com/>

<http://www.esignal.com/>

Streaming quotes can be found at:

<http://finance.lycos.com/qc/default.aspx>

These sites can help you calculate the tax basis on mutual funds and includes other tax calculators

<http://bigcharts.marketwatch.com/>

<http://www.1040tools.com/>

Financial News can be found at:

<http://www.dowjones.com/>

<http://www.bloomberg.com/>

American Association of Individual Investors

<http://www.aaii.com>

These sites are among the many offer personalized online investing advice for an annual subscription or membership fees.

[www.financialengines.com](http://www.financialengines.com)

<https://cf.morningstar.com/>

American Century

<http://www.americancentury.com>

Bloomberg Personal

<http://www.bloomberg.com>

CNBC

<http://www.cnbc.com>

CNN Financial Network

<http://www.cnnfn.com>

Dreyfus Funds

<http://www.dreyfus.com>

Investment Company Institute

<http://www.ici.org>

Kiplinger

<http://www.kiplinger.com>

Money Magazine

<http://www.money.com>

Mutual Fund Investor's Center

<http://www.mfea.com>

American Stock Exchange

<http://www.amex.com>

Barron's Online

<http://www.barrons.com>

EduStock

<http://www.library.thinkquest.org/3088>

NASDAQ

<http://www.nasdaq.com>

New York Stock Exchange

<http://www.nyse.com>

Securities and Exchange Commission

<http://www.sec.gov>

The Wall Street Research Net

<http://www.wsrn.com>

Wall Street Journal

<http://www.wsj.com>

Yahoo Finance

<http://finance.yahoo.com/>

Historical stock prices can be found at:

<http://bigcharts.marketwatch.com/>

Superstar Investor is an online investing directory and financial web site. It has won a number of awards.

<http://www.superstarinvestor.com/>

## Social Security/Medicare

**Information relative to Social security is available from a number of sources. These include the Social Security Administration of the US government.**

<http://www.socialsecurity.gov/>

Another site ranked high by the editorial board of the Wall Street Journal is the National Committee to Preserve Social Security and Medicare, an advocacy group. They have a question and answer port on their site.

<http://www.ncpssm.org/ask/index.html>

HealthMetrix Research, Inc.

<http://www.hmos4seniors.com>

Medicare Rights Center

<http://www.medicarerights.org>

National Organization of Social Security Claims Representative

<http://www.nosscr.org>

Social Security Administration

<http://www.ssa.gov>

Social Security Disability

<http://www.ssa.gov/odhome/odhome.htm>

Social Security Forms

<http://www.ssa.gov/online/forms.html>

Social Security Medicare

<http://www.ssa.gov/mediinfo.htm>

Social Security Network

<http://www.socsec.org>

Social Security Privatization and Reform

<http://www.socialsecurity.cor>

U.S. Government Website for Medicare

<http://www.medicare.gov>

HealthCare Financing Administration (Medicare and Medicaid Information)

<http://www.hcfa.gov>

## Insurance

**Regulation of insurance companies is the responsibilities of the states. The National Association of Insurance Commissioners (NAIC) is the organization of insurance regulators from the 50 states, the District of Columbia and the four U.S. territories.**

**The NAIC provides a forum for the development of uniform policy when uniformity is appropriate.**

<http://www.naic.org>

Independent's Agent of America

<http://www.independentagent.com>

Insurance Information Institute seeks to improve public understanding of insurance -- what it does and how it works. The III provides insurance information through its web site and publications.

<http://www.iii.org>

Insure.Com, originally founded as Quotesmith Corporation, is an online consumer insurance information service that caters to the needs of self-directed insurance shoppers.

<http://www.insure.com/index.html>

Quicken InsureMarket offers insurance quotes through its website.

<http://www.insuremarket.com>

American Council of Life Insurance, a professional trade association, provides information from its web site on contemporary life insurance issues.

<http://www.acli.com/>

Medicare

<http://www.medicare.gov>

Health Insurance is an important part of you financial underpinning. These websites allow you to get quotes and compare prices among many available options. Remember that any estimates of insurance costs through the Internet are not guaranteed quoted prices. You generally have to undergo a stringent review before being provided a firm quote.

<https://www.ehealthinsurance.com/>

<http://www.mostchoice.com/>

<https://www.allquotesinsurance.com/>

Health Care Financing Administration

<http://www.hcfa.gov>

Health Insurance Association of America

<http://www.hiaa.org>

Life-Line (website of the Life and Health Insurance Foundation)

<http://www.life-line.org>

U.S. Government's Agency for Health Care Policy and Research

<http://www.ahcpr.gov/consumer>

U.S. Healthcare Financing Administration

<http://www.hcfa.gov>

InsWeb

<http://www.insweb.com>

Insurance Regulatory Information Network

<http://www.irin.org>

Insurance Desktop  
<http://www.quickcales.com>

Insurance and Risk Management Central  
<http://www.irmcentral.com>

National Association of Insurance Commissioners  
<http://www.naic.org>

## Education

**In addition to these sites please visit the sites of tonight's presenters from Georgia's College savings plan.**

If you are preparing to go to college soon your first stop may be to determine what student aid may be available. Information on the FAFSA (Free Application for Student Aid) can be found at:  
<http://www.fafsa.ed.gov/>

A number of website offer information on navigating the FAFSA process and on additional resources available for students. These include:  
<http://www.finaid.org/>

The first step for planning for college assessing your education American Savings Education Association  
<http://www.asec.org>

College Admissions and Financial Aid Council  
<http://www.college-solutions.com>

College Savings Plan Network (the official website for State 529 Plans/QSTPs; affiliated with the National Association of State Treasuries; provides links on the internet to individual State plans)  
<http://www.collegesavings.org>

Comparisons of 529 plans can be found at:

<http://www.bloomberg.com/>

The College Board (a not-for-profit education association that created and controls the SAT and PSAT/NMSQT Examinations)

<http://www.collegeboard.org>

Education Commission of the States

<http://www.ecs.org>

Expected Family Contribution calculation, the EFCFormula Book describes how a student's EFC is calculated

<http://www.ed.gov>

Information on Armed Forces programs and scholarships

<http://www.goarmy.com/tour/edu/educ.htm>;

<http://www.gibill.va.gov>;

<http://www.usmc.mil>;

<http://www.af.mil>

The National Association of College Admission Counseling

<http://www.nacac.com>

The National Association of Student Financial Aid Administrators (partner with Peterson's College Quest)

<http://www.collegequest.com>

The Smart Student Guide to Financial Aid (discusses financial aid eligibility and calculation; student loan analysis; scholarship availability)

<http://www.finaid.org>

US Department of Education-College is Possible (A resource guide for parents, students, and educational professionals)

<http://www.collegispossible.com>



**Consumer Financial Concerns – Assistance with consumer issues such as credit counseling.**

Consumer Credit Counseling Service, Inc.

<http://www.debtfree.org>

Consumer Information Center in Pueblo, Colorado

<http://www.pueblo.gsa.gov>

Credit Union National Association

<http://www.cuna.org>

Debt Consolidation Organization

<http://www.debtconsolidation.com>

Debt Counselors of America

<http://www.dca.org>

Equifax

<http://www.equifax.com>

LawLinks (information on bankruptcy)

<http://www.lawlinks.com>

**Reference Sites – These sites offer primarily economic information that can assist in planning.**

Association for Financial Consulting and Planning Education

<http://www.afcp.org>

Bloomberg Personal

<http://www.bloomberg.com>

Bureau of Economic Analysis

<http://www.bea.doc.gov>

Bureau of Labor Statistics

<http://www.bls.gov>

CPI Home Page

<http://www.bls.gov/cpi/home.htm>

Economy at a Glance

<http://www.bls.gov/eag/eag.us.htm>

Small Business Association

<http://www.sba.gov>

Society of Financial Service Professionals

<http://www.asclu.org>

Board of Governors of the Federal Reserve System

<http://www.bog.frb.fed.us>

Bureau of Economic Analysis

<http://www.bea.doc.gov>

Bureau of Labor Statistics

<http://www.bls.gov>

Department of Commerce

<http://www.doc.gov>

Federal Interagency Council on Statistical Policy

<http://www.fedstats.gov>

National Council on Economic Education

<http://www.nationalcouncil.org/>

National Institute for Consumer Education

<http://www.nice.emich.edu>

PPI Home Page

<http://www.bls.gov/ppi/home.htm>

Barron's Online

<http://www.barrons.com>

Kiplinger

<http://www.kipliner.com>

Money Magazine

<http://www.money.com>

Smart Money Magazine

<http://www.dowjones.com/smart>

Society of Financial Service Professionals  
<http://www.asclu.org>

TIAA-CREF (Dictionary of Terms)  
<http://www.tiaa-cref.org/dict.html>

American Savings Education Council  
[www.asec.org](http://www.asec.org)

There are a number of Usenet newsgroups that conduct discussions over the Internet. Some of the groups are moderated and some are not moderated, meaning discussions can sometimes get “off topic.” Participants in these discussions can include amateurs, professionals, and lay people interested in the topics being discussed. You should always be particularly cautious on using or acting on ANY information you receive in these discussions. Be particularly wary of all investment information contained in these forums and advice on tax avoidance practices.

Newsgroups include:

[www.deja.com/group/alt.accounting](http://www.deja.com/group/alt.accounting)  
[www.deja.com/group/misc.taxes.moderated](http://www.deja.com/group/misc.taxes.moderated)  
[www.deja.com/group/misc.invest.financial-plan](http://www.deja.com/group/misc.invest.financial-plan)

## **Financial planning for youngsters.**

The Federal government has sites to help minors gain financial literacy. This site has links to many of those sites.

<http://www.treas.gov/kids/>

Maryland Public TV interactive site allows children to earn, spend, and save, money. Aimed primarily at teenagers.

<http://senseanddollars.thinkport.org/>

The Young Adult Consumer Education Trust sponsors a web site for teenagers, parents, and teachers

<http://www.consumerjungle.org/>

Teenagers learn about finance, career planning and other topics at the Junior Achievement web site.

[http://www.japersonalfinance.org/main/main\\_welcome.asp](http://www.japersonalfinance.org/main/main_welcome.asp)

Information on Practical money skills is available at the VISA USA site

<http://www.practicalmoneyskills.com/index.php>

Citigroup sponsors a Young Investors Network that includes tutorials on investments and allows youngsters to create virtual portfolios and track their progress.

<http://www.smithbarney.com/yin/home.htm>

A.G. Edwards offers a site aimed at investor education including a site for youngsters with a game aimed at 6-10 year olds.

<http://www.agedwards.com/public/content/sc/invedu/inveduindex.html>

Robert Kiyosaka has authored a number of books that help both adults and children plan their financial futures. Information about his books and techniques can be found at his website.

<http://www.richdad.com/>

The Women's Institute for Financial Education offers a guide to teaching youngsters about money at this website.

[http://www.wife.org/our\\_money/teachyourchildrenwell.htm](http://www.wife.org/our_money/teachyourchildrenwell.htm)

Ultimate Kids Money Book by [Neale S. Godfrey](#)

Money Doesn't Grow on Trees: A Parent's Guide to Raising Financially Responsible Children by [Neale S. Godfrey](#), [Carolina Edwards](#)

## MISCELLANEOUS PLANNING SITES

### **Information relative to Real Estate as an Investment**

Creative Real Estate on-Line, one of the first Internet based real estate investing site.

<http://www.creonline.com/>

### **Internet sites that focus on needs of older persons include:**

America Institute of Financial Gerontology. This site administered for advisors who specialize in serving older clients with their financial needs contains some consumer information and can identify a certified gerontology planner in their geographic area.

<http://www.aifg.org/display.cgi?page=aboutcfg>